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Page 16

World News

Mandela calls for end to factional fighting

Nelson Mandela, the leader of the African National Congress, yesterday made a plea for peace in South Africa's province of Natal. He told a rally of supporters to throw their weapons into the sea to stop the fighting. Courting unpopularity among the vast crowd, he urged reconciliation with Inkatha, the Zulu movement headed by Chief Mangosuthu Buthelezi. Page 2

Bulgarians march

More than 80,000 Bulgarians, frustrated with the slow pace of reform, staged the largest anti-Communist protest since the ousting of veteran leader Todor Zhivkov in November. Leaders of the opposition Union of Democratic Forces were cheered as they called for an end to Communist rule.

Nicaraguan polls

Voting opened yesterday in elections which allow Nicaraguans to pass their verdict on 10 years under the ruling Sandinista National Liberation Front (FSLN), which faces a strong challenge from the US-backed National Opposition Union (UNO). Page 2

Nato differences

Belgian Foreign Minister Mark Eyskens said there was no chance for Nato to modernise its short-range nuclear missiles in Europe, given the prospect of German unity and democratic changes in eastern Europe. His comments on the topic are likely to cause a stir in the alliance which had agreed to put the modernisation issue on ice until 1992.

Australian debate

A TV confrontation between Australia's Prime Minister Bob Hawke and opposition leader Andrew Peacock stressed the importance of economic issues in the country's election campaign, but almost certainly failed to help large numbers of undecided voters. Page 3

Call for Arab protest

Iraq's President Saddam Hussein said Arab states should divert some of their billions of dollars in investments in the US to eastern Europe and the Soviet Union to protest against US support for the new wave of Jewish emigration to Israel. Page 2

Philippines rally

The Philippines marked the fourth anniversary of the overthrow of former President Ferdinand Marcos with a 20,000-strong rally but the nation, recovering from its sixth coup bid last December, had little to celebrate. Page 3

Stand collapses

At least 45 people were injured, 25 seriously, when spectator stands collapsed during a soccer game at Kusadasi in western Turkey, the Anatolian News Agency said.

Pressure on Israel

Under continued pressure from Washington and Cairo, the Likud and Labour wings of Israel's national-unity coalition are edging towards an agreed formula for Israeli-Palestinian peace talks. Page 2

Cambodia talks

Cambodia's warring factions meet in Jakarta today in a new attempt to end the war. Diplomats say there could be some headway in trying to end 11 years of fighting though a comprehensive solution is still a long way off. The talks are the first since an international conference in Paris broke down last August. Page 3

No Greek president

Greece's 300-member parliament failed in its second attempt to elect a new head of state with neither of the two candidates winning the necessary two-thirds majority.

Plan for driftnet ban

The European Community is preparing to ban fishing for tuna with driftnets which ensnare whales, dolphins and other fish as they scoop up all marine life in their path.

Alert in Tibet

Chinese security forces were on alert for renewed pro-independence demonstrations in Lhasa today when Tibetans celebrate their new year festival for the first time under martial law.

Atlantis grounded

Launch of the US space shuttle Atlantis was scrubbed early yesterday, just 31 seconds from lift-off, because of a computer malfunction. The delay was the latest in a series caused by illness and bad weather.

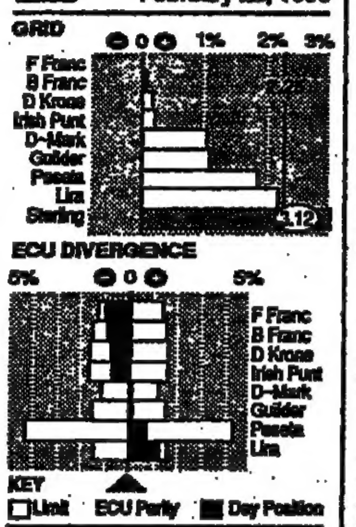
Business Summary

Bush invites Kaifu to US to discuss trade friction

MR TOSHIKI KAIFU, Japan's Prime Minister, has received a sudden invitation from President George Bush to visit the US this week to discuss growing trade friction between the two countries and developments in north Asia. Page 18

EUROPEAN Monetary System: A relatively depressed D-Mark helped limit pressure in the EMS last week, although the lira threatened to rise above its divergence limit against the French and Belgian francs. The French franc finished as the weakest currency, but rose to a five-month high against the D-Mark on Friday. The lira was strong despite disagreement within the Italian coalition Government. At the Milan fixing on Friday the Bank of Italy bought D-Marks as the lira touched its highest level against the D-Mark since early December.

EMS February 23, 1990



The chart shows the constraints on EMS exchange rates. The upper grid, based on the system's weakest currency, defines the cross-rates from which only the peseta may move by more than 2¼ per cent. The lower chart gives currencies' divergence from the central rate against the European Currency Unit (Ecu).

BRITISH Airways has launched a three-year plan to improve the deteriorating financial performance of its European operations – which accounted for 40 per cent of annual turnover, but contributed only £16m ($27m), less than 5 per cent, of operating surplus in 1988-89. Page 10

SAATCHI and Saatchi is prepared to listen to "any reasonable proposition" short of selling or diminishing its core business to bolster its prospects in the wake of last week's collapse of confidence in the company. Page 18

CHICAGO-based Tribune Company stated categorically that no talks regarding a sale of the New York Daily News to Robert Maxwell were taking place. Page 20

GENCOR, South Africa's second largest mining house, is to merge the oil refining and distribution networks acquired when Mobil, the US oil giant, divested its South African oil and gas interests last year. Page 23

SIR DEREK Alun-Jones, has received a substantial pay-off following his resignation as chairman and chief executive of Ferranti International, defence equipment group. Page 20

FINISH bank workers have rejected a mediation plan to end their strike over pay and days off, which has closed most banks all month. Page 2

BRAZILIAN inflation in February rose 73 per cent – the highest monthly increase in the nation's history. The annual rate is now 171 per cent since January and has reached 2,751 per cent during the last 12 months. Page 2

GAMMA Holdings of the Netherlands will buy a 55 per cent controlling stake in Belgian textile business, De Witte Lietaer, and launch a formal takeover offer for the remaining shares. Page 23

SPAIN'S big banks look set to begin a deposits war when Banco Espanol de Credito (Banesto), sarts paying interest on current accounts in a challenge to a similar move by Banco Santander. Page 23

OWNERS of Al Rayan, Egypt's biggest finance house, went on trial on charges of massive fraud against 187,000 depositors whom it is alleged were cheated of almost £E2bn ($766m). Page 2

Bush and Kohl say a united Germany must stay in Nato

By Lionel Barber in Washington and Quentin Peel in Moscow

MR George Bush, US President, and Mr Helmut Kohl, Chancellor of West Germany yesterday agreed that a unified Germany should remain a full member of Nato, and that US troops should remain as a guarantor of stability in Europe.

But the Soviet Union's Foreign Ministry yesterday flatly rejected any proposal that Germany should be part of the western military alliance.

The US-German agreement, which is aimed at reassuring western allies and Germany's neighbours alarmed at the pace of reunification, was reached after two days of talks at the presidential retreat outside Washington at Camp David, Maryland.

Under the agreement, Germany would remain a full member of the western alliance.

What is now East Germany would have a "special military status" which would take into account the security concerns of "all interested parties including the Soviet Union", and could involve Soviet troops remaining for a transitional period.

Dismissing fears about a resurgent Germany in the centre of Europe, Mr Bush spoke of West German's 45-year-old democracy and its membership of Nato. "The enemy is unpredictability and instability."

Mr Bush was asked how he would respond if Mr Gorbachev opposed a reunited Germany being in Nato. "We will do what (former President) Lyndon Johnson did, we will reason together – and it will all work out."

Mr Kohl, expressing "profound gratitude" for Washington's support, pledged that a reunited Germany would respect the security of neighbouring states.

He avoided delivering a clear-cut promise, however, on the Polish border issue which the Administration had pressed to extract during the weekend talks.

Immediately after Mr Kohl spoke, Mr Bush stated that the US supported the inviolability of borders under the 1975 Helsinki security and co-operation agreement and declared that the US formally recognised the current German/Polish border.

The purpose of the Camp David meeting was to reach a common understanding on broad political security issues before the March 18 elections in East Germany, which are expected to lead to the creation of a united legal and political entity within a matter of weeks.

The two leaders said they had not agreed to a firm timetable on reunification, nor how exactly the "two-plus-four" mechanism – involving the two Germanies, the US, Soviet Union, France and the UK – would work.

"The big point is to keep each other informed," said Mr Bush. The Administration was irritated last December when, with little forewarning, Chancellor Kohl set out publicly a 10-point plan for unity.

Mr Bush acknowledged concern about German reunficiation in Western capitals, Moscow and Warsaw, but he emphasised that the US had no right to speed up or slow down unification – it was a matter for the Germans to decide.

This was sharply at odds with yesterday's Soviet statement. The policy-making collegium of the Soviet Foreign Ministry suggested that any outcome to the debate on German unification which involved membership of Nato "would lead to an inadmissible upsetting of the military-strategic balance."

The Foreign Ministry insisted that "the underlying principle from our point of view is that the process of building German unity should exclude once and for all the possibility that Germany will be a threat to peace."

The statement came before the joint US-German announcement, and was clearly aimed at reinforcing the Soviet position.

This appears to be much more restrictive than the position taken by Mr Mikhail Gorbachev when he met Chancellor Kohl in Moscow recently. Then the Soviet position was that the two Germanys must sort out the details of their own relationship, while taking into account the security interests of their neighbours.

● Pöhl warning, exodus continues, Modrow poll, Page 4

Pro-democracy rally in Moscow yesterday being observed from a roof-top by the city's police chief (second right). The crowd, estimated at 150,000, called for the Communist Party to sit down at a round table with opposition groups. The authorities defused the demonstrations, which took place in many other cities across the Soviet Union. Page 4

Lithuanian independence group sweeps to victory

By Paul Winfrey in Vilnius

THE SOVIET republic of Lithuania's independence movement, Sajudis, swept to victory in the Soviet Union's first multi-party elections on Saturday, according to unofficial election returns gathered by Sajudis representatives.

The victory sets the republic firmly on course for full secession from the Soviet Union.

Anti-Communist Party sentiment, meanwhile, brought crowds of up to 100,000 on to the streets of Moscow yesterday, in spite of official warnings of possible violence, to call for Communist leaders to step down and for radical reforms to the Soviet system.

The demonstrations passed off peacefully. However they were smaller than had been hoped for by opposition groups which had sought a massive show of strength a week before voting in the country's Slavic heartland republics of Byelorussia, Ukraine and Russia.

In Lithuania, however, reliable data available on 90 of the 141 seats contested showed that Sajudis-backed candidates were claiming 72 victories, a margin which would give them an 80 per cent majority in the first Lithuanian Supreme Soviet to be chosen in free elections, if the pattern is continued in run-offs to be held in two weeks.

The result will give the Lithuanian parliament a big majority in favour of secession and comes only weeks after Mr Mikhail Gorbachev, the Soviet leader, visited Vilnius to plead for the republic to remain in the union.

Candidates from the Independent Communist Party who were not backed by Sajudis won a meagre nine seats. Mr Algis Chekoulis, a Communist candidate endorsed by Sajudis, said: "If this is not a landslide, what is?" Mr Virgilis Chepaitis, secretary of Sajudis, said: "The Communist Party is finished in Lithuania," as the results were posted on the bulletin board in Sajudis' Vilnius office.

Although the elections were touted as the first multi-party balloting in Soviet history, endorsement by Sajudis, an umbrella independence group which claims it is not a political party, remained more important than political affiliation.

Among the new parties, nine Social Democrats, two Greens and two Christian Democrats were elected. No one was elected from the new parties not endorsed by Sajudis. Mr Romualdis Ozolis, vice-president of Sajudis, said: "None of the new parties is very strong. Therefore, personalities still express political ideas more than parties."

Mr Algirdas Brazauskas, the Communist Party boss, was the real loser. He gambled in December that leading the Lithuanian Communists out of the Soviet Party to form an independent Lithuanian Party would make the group a credible political force.

Mr Brazauskas was rewarded for his defiance with a 91 per cent victory in the district where he was running, but his new-found popularity failed to carry over to the party he leads.

Twenty-two Lithuanian Communists were elected but 13 of them had Sajudis endorsements, leaving the non-Sajudis Communist Party with nine seats. The disastrous showing was a sign that in Lithuania, as in much of eastern Europe, voters are unwilling to accept even reform-minded Communists after 40 years' rule.

Run-offs for seats where candidates failed to win more than 50 per cent of the vote will be held in two weeks. However, most citizens in this republic of 3.5m people interpreted the results as an overwhelming mandate for the republic to secede from the Soviet Union, perhaps as soon as the spring.

Mr Vytautas Landsbergis, the Sajudis leader, who was elected in Panevezys district with a 62 per cent majority, hopes the new parliament will convene in April and immediately begin talks with Moscow to re-establish Lithuanian independence.

Observers expect a coalition government will emerge from the new parliament, possibly even retaining Mr Brazauskas as head of state.

First Boston confirms exposure

By Alan Friedman and Janet Bush in New York

CS FIRST BOSTON, the Wall Street securities house, has admitted that it has a junk bond-related loan exposure of $1.2bn as part of an effort to counteract concerns that it is in financial trouble.

Fears about the health of First Boston have been mounting since Drexel Burnham Lambert filed for bankruptcy two weeks ago. First Boston is believed to be the investment bank with the largest exposure to the distressed junk bond market after Drexel.

In a determined effort to quell market speculation, First Boston, 44.5 per cent owned by the parent of Crédit Suisse, the Swiss bank, took the unusual step of releasing to the press an internal memorandum to its employees.

The memo states that the company had "sufficient back-up credit resources to weather any short-term disruptions caused by fall-out from the Drexel bankruptcy."

The memorandum is signed by both Mr Jack Hennessy, president of CS First Boston, and Mr Rainer Gut, chairman of Crédit Suisse. Mr Gut's signature was intended to reassure employees that the Swiss parent would not abandon the US company.

The memorandum reveals that First Boston made a modest $11m profit for the whole of 1989 after "making a significant contribution to our reserves" for its exposure to the bankrupt Campeau retail empire.

The $1.2bn of junk-related "bridge loan" exposure includes $257m of debt from Campeau's Federated Department Stores subsidiary and $935m of other dubious loans to Ohio Mattress Company, Jerrico and AMI. All of the companies were to be financed by junk bond issues.

First Boston said that although its equity capital was only $1.1bn, it had combined capital and reserves of nearly $2bn, enough to cover any further losses.

Moody's Investors Service's concern about the company's "appetite for making subordinated loans to leveraged buy-outs and its exposure to junk deals such as Ohio and Federated" led it to downgrade First Boston's long-term credit rating in November.

CS Holding, First Boston's parent, said last week that it was examining the possibility

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Report warns of deficiencies in US insurance regulation

By Peter Riddell, US Editor, in Washington

SERIOUS deficiencies exist in US insurance regulation, similar to those which led to the collapse of the savings and loan industry, according to a wide-ranging Congressional report, published yesterday.

The report, from a sub-committee of the House Energy and Commerce Committee, also highlights weaknesses in the screening of underwriting "names" by Lloyd's of London, while generally praising British regulatory and auditing practices as examples the US might follow.

Congressman John Dingell, influential Democratic chairman of the committee, says, on the basis of an 18-month inquiry, "the parallels between the present situation in the insurance industry and the early stages of the savings and loan debacle are both obvious and deeply disturbing. They encompass scandalous mismanagement and rascality by those entrusted with operating insurance companies, along with an appalling lack of regulatory controls."

"While there is not yet an insurance crisis on the scale of savings and loans, half the insolvencies since 1969 occurred in the last five years, and nearly half the costs to state guarantee funds associated with those insolvencies were paid in 1987 alone."

The report focuses on four failures, all in the commercial property/casualty field, which will cost the US public an estimated $5bn. The companies were Mission Insurance and Transit Casualty, both of Los Angeles, Integrity Insurance of New Jersey, and Anglo-American Insurance of Dallas.

The committee notes that no-one involved in the failures has been cited by state regulatory agencies (which have the main responsibility), nor are there any applicable federal laws (other than those on wire or mail fraud, whose statutes of limitation come into effect before cases can successfully be developed).

The report points in particular to the activities, in relation to Transit Casualty and Anglo-American, of Mr Carlos Miro, a London-based businessman. It says his "insurance career has been marked by excessive greed, megalomania, lies and cynical abuse of the business and regulatory system. Although only 35 years old, he has personally been involved in virtually every major problem area identified by the sub-committee, including gross mismanagement, uncontrolled managing general agents, illusory reinsurance, fraudulent pricing, shell companies, conflicts of interest, self-dealing, offshore havens, and false reports.

"His remarkable record of unprincipled exploitation is matched by the failure of the present insurance regulatory system either to prevent or punish Mr Miro's multitude of wrongs."

While most of the blame is

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Lloyd's reputation at risk, Page 10

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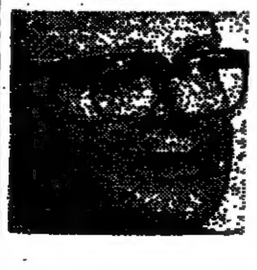
THE MONDAY INTERVIEW



John McGregor, the Scotsman in charge of British education, is not as good a salesman as his predecessor, Kenneth Baker. But he more than compensates by his deep and genuine interest.

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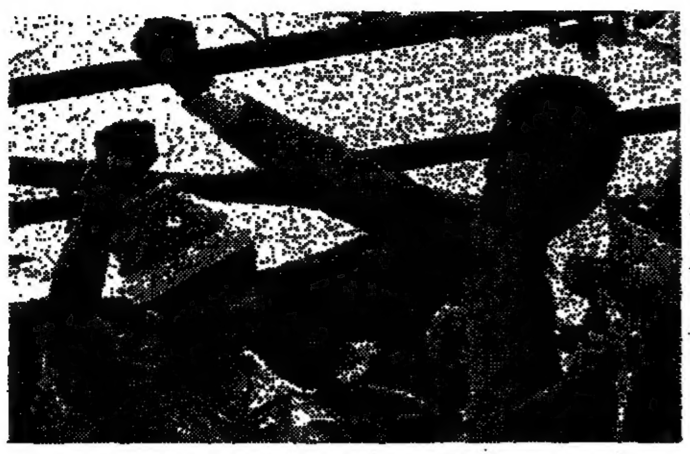
OVERSEAS NEWS

Mandela urges supporters to end factional fighting

By Patti Waldmeir in Durban

MR Nelson Mandela, leader of the African National Congress, yesterday made a plea for peace in South Africa's troubled province of Natal, telling a rally of some 60,000 of his supporters to throw their weapons into the sea to stop the fighting.

Courting unpopularity among the vast crowd which sat crosslegged on the playing fields of the King's Park stadium in Durban, Mr Mandela, freed from jail this month, urged reconciliation with Inkatha, the Zulu movement headed by Chief Mangosuthu Buthelezi.



Winnie and Nelson Mandela salute yesterday's crowd in Durban.

He said he would soon meet the Zulu monarch, King Goodwill Zwelethini, for talks aimed at ending factional fighting which has left 3,000 blacks dead in the past four years. Earlier, Mr Walter Sisulu, another senior ANC leader, had said Chief Buthelezi would also attend the talks.

Mr Mandela said the fighting – which pits supporters of Inkatha against backers of the ANC and its affiliates, the Congress of South African Trade Unions (Cosatu) and the United Democratic Front – was hindering the struggle against apartheid.

The ANC leader pleaded with the crowd: "My message to those of you involved in this battle of brother against brother is this: take your guns, your knives, your pangas, and throw them into the sea."

Mr Mandela made several conciliatory gestures towards Chief Buthelezi, the Chief Minister of the KwaZulu black homeland, who is accused by many ANC supporters of collaborating with Pretoria. "We extend the hand of peace to Inkatha and hope it might one day be possible for us to share a platform with its leader, Chief Buthelezi," the ANC leader said, provoking boos from the crowd.

He commended Inkatha for demanding the unbanning of the ANC and the release of political prisoners, adding that it "had contributed in no small measure to making it difficult for the regime to implement successive schemes designed to perpetuate minority rule."

Mr Mandela's comments were welcomed by one senior Inkatha official, who said after the rally he expected a significant easing of tensions as a result.

Washington braced for possible Sandinista victory

By Tim Coone in Managua and Lionel Barber in Washington

MR JIMMY CARTER, former US president and an official observer of the Nicaraguan elections, said yesterday that if polling was free and fair he would make "a very strong recommendation" to President George Bush to lift US economic sanctions against Nicaragua and to normalise relations.

Mr Daniel Ortega, Nicaragua's President and candidate of the ruling Sandinistas, has also said that if re-elected, his Government will stop arming leftist guerrillas in El Salvador. This would remove another key obstacle to relations.

Voter turnout appeared to be heavy as polling was held yesterday. Queues began forming outside polling stations as early as four in the morning in the capital. Poll experts said a heavy turnout was likely to favour UNO, the US-backed opposition alliance.

The atmosphere was calm and Electoral Council regulations prohibiting the display of party propaganda at polling stations, including the wearing of T-shirts or hats with party slogans and symbols on them, were strictly observed.

According to one report, US-backed Contra rebels attacked two villages in the north of the country which are known for their strong support for the ruling Sandinista party (FSLN). No other serious incidents were reported, however.

The total number of registered voters has increased by 190,000, or 12.2 per cent, to about 1.75m since the last elections in 1984. The abstention rate then was nearly 25 per cent, with a further 6.7 per cent of ballots spoiled. The abstention and null vote rates are expected to be substantially lower this time.

Analysts will be waiting to see whether the FSLN has been able to hold on to the 735,000 votes it obtained in 1984, or to increase them. A high turnout combined with only a stable vote for the FSLN could produce a very close result and almost certainly the loss of the FSLN's absolute majority in the 96-seat National Assembly.

The Bush Administration – bracing itself for a possible Sandinista election win – has set several conditions before a normalisation of relations can occur and a long-standing trade embargo is lifted. Among the most important is a halt of Sandinista military support for the Farabundo Marti National Liberation Front.

President Ortega's remarks on ending support for the guerrillas were made in an interview with the New York Times on the eve of the elections. They suggested that the Sandinistas may be prepared to do a deal with Washington at the expense of the guerrilla coalition.

The US has hoped that a popular wave of discontent with the Sandinistas – coupled with the dire state of the Nicaraguan economy – would propel Mrs Violeta Chamorro, the US-backed opposition candidate, to victory. But officials have begun to adjust to the prospect of a Sandinista win and spell out publicly what is likely to be a guarded US response.

Last week, Mr James Baker, US Secretary of State, told Congress that the US would expect "a substantial period of good behaviour", as well as the end of military aid to the FMLN in line with the Esquipulas regional accords. Mr Baker also refused to commit the US unconditionally to the verdict of international observers headed by the UN, the Organisation of American States, and Mr Carter on whether the election is free and fair.

Israeli coalition edges towards peace talks formula

By Eric Silver in Jerusalem

UNDER continued pressure from Washington and Cairo, the Likud and Labour wings of Israel's national-unity coalition are edging towards an agreed formula for Israeli-Palestinian peace talks.

Mr Moshe Arens, the Foreign Minister, returned from the US yesterday and was reporting last night to Mr Yitzhak Shamir, the Prime Minister, on his talks with Mr James Baker, US Secretary of State. Mr Shamir is expected to call a meeting of senior ministers soon to review developments.

Mr Baker pressed the Israelis for an early answer to an US proposal already endorsed by Egypt and the Palestine Liberation Organisation. He told Congress last week: "We need action. We've done a lot of talking."

The sense of urgency was reinforced in Jerusalem yesterday by a normally conservative US Jewish leader. Mr Seymour Reich, president of the Conference of Presidents of Major Jewish Organisations, said: "Clearly the next two weeks are very critical in this process. Baker has indicated that he's got a lot on his plate in terms of world issues and that he wants a response. I think he is deserving of a response shortly, and I think the Israeli cabinet will have to make a decision."

Labour threatened last week to break up the coalition if the right-wing Likud did not agree by March 7 on terms for advancing the long-stalled peace process. With the Likud torn by factional rivalries, Mr Shamir is reluctant to face a showdown with his main partner.

In informal soundings over the weekend, he is reported to have reached a tentative agreement with Mr Yitzhak Rabin, the Labour Defence Minister, on the issue of the composition of the Palestinian negotiating team. It would include a deported activist and a leading Arab journalist.

The journalist, Mr Radwan Abu Ayyash, has served two terms of administrative detention. He was born in a refugee camp and lives in Ramallah. His nomination would satisfy Likud, which refuses to allow Jerusalem Arabs any part in the proposed transitional elections, but may not be enough for the Palestinians, who are equally determined that Jerusalem should be included in any West Bank agreement.

Saddam seeks Arab economic lobby of US

By Lamis Andoni in Amman and Tony Walker in Cairo

ARAB states should divert some of their billions of dollars in investments in the US to eastern Europe and the Soviet Union in protest at US support for the new wave of Jewish emigration to Israel, Iraq's President Saddam Hussein said at the weekend.

The Iraqi leader's remarks reflect growing anger and dismay in the Arab world at the US role in facilitating the emigration of thousands of Soviet Jews to Israel.

"Just as Israel has certain lobbies to pressure the American Administration," he told fellow Arab leaders at a mini-summit in Amman, "so hundreds of billions invested by the Arabs in the US and the West may be similarly deployed."

President Hussein, in a thinly veiled criticism of Arab moderates such as the wealthy pro-American Gulf states, said the Arabs too often had been reduced to "ineffective rejection or silence" by Washington's actions in the region. "As a result," he said, "the US does not take Arab positions seriously."

The leaders of the four-nation Arab Co-operation Council, grouping Egypt, Iraq, Jordan and North Yemen, have called for a special meeting in Tunis next month of Arab Foreign Ministers to plan a campaign against the new wave of Jewish emigration.

The ACC leaders accused Washington of being responsible for the influx, and branded it "an open aggression against the rights of the Palestinian people and a threat to the Arab order and current Middle East peace efforts."

NEWS IN BRIEF

Fraud trial against Cairo financiers begins

OWNERS of Al Rayan, Egypt's biggest finance house, went on trial yesterday on charges of massive fraud against 187,000 depositors whom it is alleged were cheated of almost £E2bn ($456m), Tony Walker reports from Cairo.

Defendants included Mr Ahmed Tawfik al-Fattah, the company chairman, his father, brother, two company employees and eight businessmen accused of assisting in the transfer of millions of dollars abroad.

The al Rayan principals were arrested in late 1988 after the Government cracked down on the Islamic deposit-taking sector.

The Islamic companies prospered by offering depositors much higher rates of return than the banks. These institutions were widely accused of operating "pyramid" schemes whereby they paid dividends from the funds lodged by new depositors.

Brazil inflation 73% for month

Brazil's inflation rate in February rose 73 per cent, the highest monthly increase in the nation's history, the Government said, AP-DJ reports from Rio de Janeiro.

February's inflation, calculated during the first 28 days of the month, jumped from January's rate of 56.1 per cent, according to the Brazilian Geography and Statistics Institute. The Government recognises the institute's figures as official.

Inflation is running at an annual rate of 171 per cent since January and has reached 2,751 per cent during the last 12 months, the institute reported.

Rome trade deficit down

Italy's trade deficit narrowed to L3.895 trillion (million million) in January from a deficit of L4.296 trillion (£2.03bn) a year earlier, the State Statistical office Istat said, but the figures showed the gap worsened from December, AP-DJ reports from Rome.

The January deficit compared with a L388bn lire surplus in December. January's figures are provisional and not seasonally adjusted.

German bank lending up

The strength of the West German economy, with companies investing heavily to overcome capacity constraints at a time of high demand, has led to a sharp rise in bank lending, Andrew Fisher writes from Frankfurt. The Bundesbank said bank credits to the private sector in the past six months rose at a seasonally adjusted annual rate of 9.5 per cent.

Finnish bank impasse

Finnish bank workers rejected a mediation plan yesterday to end a strike which has closed most banks all month and said the stoppage would go on, Reuter reports from Helsinki.

Employers' leader Mr Heikki Ropponen said the banks could be closed at least two more weeks. He said his side had been willing to accept the plan. No more talks were planned.

Turkish lira curbs raised

The Turkish Government took more steps towards full convertibility for the lira yesterday by raising the thresholds for free foreign exchange and capital outflows, Jim Bodgener writes from Ankara.

The Official Gazette said the upper limit on capital outflows which can be made without ministerial agreement had been doubled to the equivalent of $50m. Turks can also now take foreign exchange equivalent to $5,000 abroad rather than $3,000.

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Australian general election

Poles apart: Peacock and Hawke pitch for victory in yesterday's live TV debate

Party leaders fail to score points in 'Great Debate'

By Chris Sherwell in Sydney

A LIVE television confrontation between Australia's Prime Minister Bob Hawke and Mr Andrew Peacock, the opposition leader, last night highlighted the importance of economic issues in the country's election campaign, but almost certainly failed to help the large number of undecided voters.

The hour-long "Great Debate" – a structured, unspontaneous affair at the end of the campaign's first week – saw neither man score new points or commit a grievous error, and left both with everything to play for, ahead of polling day on March 24.

A forceful Mr Peacock declared the economy was on the "brink of collapse" and claimed his Liberal and National Party coalition had a co-ordinated policy programme to lift family living standards. "If you want more of the same, you'll vote Labor," he said. "If you want a change for the better, the answer is Liberal."

An authoritative Mr Hawke pointed to a record of smaller government, jobs growth and a restructured economy under seven years of Labor Party rule, and claimed a decisive advantage in Labor's ability to control wages.

Whereas Labor was united, he added, "the Liberal Party is ridden with internal bitternesses and hatreds, and there is fundamental division between the Liberal party and the National Party."

The debate, at Mr Hawke's insistence, unfortunately took place before either party had released its full policy statement. Under agreed rules, the two leaders made their own statements on each of three issues: the economy, social policy, and the environment.

On the economy, voters are unlikely to have found the results convincing. Mr Peacock insisted his anti-inflation programme, involving tighter fiscal policy, a freeing-up of the labour market to boost productivity and a steadier monetary policy, would mean "sustained" falls in interest rates, and lift employment rather than create unemployment.

For his part, Mr Hawke, when questioned about his government's persistent failure to meet its inflation and interest rate targets, linked interest rate levels to inflation and said inflation was determined principally by wages, but then pointed to Labor's success in beating its forecast wages outcomes.

On social policy, Mr Hawke claimed Labor had created a fairer society, only to hear Mr Peacock attack him for allowing the rich to grow richer and the poor poorer.

On the environment, Mr Peacock pointed to the opposition's record in government in creating national parks at Ayer's Rock, Kakadu and the Barrier Reef.

New attempt today to end Cambodian war

John Murray Brown and **Robin Pauley** on the factions' first talks since last year

A stark 1950s hotel, built as part of Japan's war reparations to Indonesia, is today the venue for the latest attempt to end the 11-year war in Cambodia.

Today's talks provide the first meeting between Cambodia's warring factions – the three-party resistance coalition and the Vietnamese-backed government of Hun Sen in Phnom Penh – since the withdrawal of the Vietnamese occupation forces and resumption of the civil war last autumn.

It will be their first opportunity to discuss together an Australian proposal that the UN somehow take over the administration of Cambodia pending elections.

The five permanent members of the UN Security Council in January endorsed the idea that the UN should play a greatly enhanced role in Cambodia, though they differ about what that role should be.

Also attending today's meeting will be the foreign ministers of Vietnam, Laos, the six members of the Association of South-East Asian Nations, Australia and France, as well as the UN's special Representative on Cambodia, Mr Rafueedin Achmad. The US and Soviet Union are sending observers.

Internationally, at least, there is a new sense of urgency to find a permanent peace agreement for this war-ravaged former French colony. A settlement would allow Cambodia to rebuild its once-prosperous and resource-rich economy.

The UN Security Council's permanent members believe the UN should play an enhanced role, though they may differ on what this should be

Any settlement will also have broad strategic implications wider afield than Indo-China and Asean. The major powers will be looking for changes in a region where the political and economic interests of the US, the Soviet Union and China increasingly intersect.

Cambodia gained independence in 1954. Since then, it suffered US bombing as the Vietnam War spread, and then civil war between Lon Nol and Pol Pot, the latter infamous as the architect of Cambodia's killing fields.

Tight-lipped Khieu Samphan on arrival in Jakarta yesterday

The Chinese-backed Khmer Rouge régime of Pol Pot devastated Cambodia in the years 1975-78, killing an estimated 1m of the 7m inhabitants until overthrown by the Vietnamese invasion on Christmas Day 1978.

The Australian plan sidesteps the problem of who will administer Cambodia during the interim period between a ceasefire and elections – the main stumbling-block at last summer's international conference in Paris. The proposal would give the UN far-reaching executive powers in the run-up to elections.

The UN would also supervise a ceasefire, and monitor the elections. A national council composed of all Cambodian factions would take over the country's seat at the UN – a variant of the idea that the UN seat be declared vacant.

"It's not intended to be a blueprint, but a map of possible ways to find a solution," said Mr Gareth Evans, the Australian Foreign Minister, clutching the 150-page working paper, on his arrival in Jakarta.

The document also considers the likely cost of such an operation. The current UN monitoring operation in Namibia, involving 4,500 police, military and administrative staff, is costing $515m (£321m) for a year. The Australian document is understood to estimate minimum cost of the Cambodian operation as $780m. Japan has already indicated it may foot a large part of the bill.

The Cambodian factions have still to agree. At their meeting in Bangkok last week, Prince Sihanouk and Hun Sen signalled their willingness to support the creation of a national council, and for the first time agreed that a significant UN role was "essential".

Hun Sen hitherto has rejected any participation by the UN, largely because Cambodia's UN seat is still occupied by the opposition coalition. He now argues that letting a national council occupy the seat until elections prevents "anyone losing face."

He has also proposed, as an alternative to the Australian idea, that Cambodia be temporarily divided, with two parallel governments, each in the territory it now controls, and each relinquishing part of its executive authority to the UN.

Khmer Rouge agreement to any of this will most likely prove harder to secure. Mr Evans conceded the Khmer Rouge were "the least enthusiastic". But he said it was "important the Khmer Rouge is not allowed to apply a veto over the process".

Chinese support for the Khmer Rouge is no longer assured, and Thailand, which allows the Khmer Rouge to run supply-lines across the Thai border, is now anxious for a settlement, even if it excludes a role for the Khmer Rouge.

China's endorsement of an enhanced role for the UN with Khmer Rouge agreement suggests Peking may be ready at least to shorten the leash on its Khmer Rouge clients, the largest and most effective of the three resistance armies fighting government forces in western Cambodia.

The Soviet Union, preoccupied with its own domestic problems, has put pressure on Vietnam. Vietnam in turn seems willing to leave the fate of the régime it installed in Phnom Penh to the ballot box, particularly as Hun Sen has appeared an increasingly attractive prospect to both urban Vietnamese and to much of the international community.

Vietnam is keen to shed its isolated status in the international community and attract aid funds to reconstruct its own economy.

There is a new sense of urgency to find a permanent peace agreement, which would allow Cambodia to rebuild its resource-rich economy

At a ministerial meeting in Malaysia this month, Asean and the EC openly condemned the Khmer Rouge, and said it must not be allowed to regain power by force. The EC said it would not vote for the coalition to retain the country's seat at the UN when the Credentials Committee meets again in October.

This week, the Khmer Rouge, led by Khieu Samphan, may find itself further isolated at the talks which are designed to make enough progress to enable the stalled Paris conference to be reconvened.

However, recent history permits little room for great optimism, and once again, China's absence could prove the one real weakness in the Jakarta talks.

Manila finds little to celebrate

By Greg Hutchinson in Manila

THE Philippines marked the fourth anniversary of the overthrow of former-President Ferdinand Marcos with a 20,000-strong rally yesterday, but the nation, recovering from its sixth and most serious coup bid last December, had little to celebrate.

Hopes raised by the February 1986 revolt which drove Marcos to exile and thrust Mrs Corazon Aquino into the presidency, are now in tatters.

The Aquino government is fighting to contain rising prices and corruption in a country still controlled by the rich and ultimately at the mercy of a fragmented army.

The "people power" revolution is Filipino democracy's curse. It has set a precedent for coup attempts which army rebels have been quick to seize on, and the Aquino government at a loss to counter.

The 1986 event, which saw crowds of up to 1m block Marcos's tanks, has lent respectability to efforts to overthrow the Aquino government, including the last by Col Gregorio Honasan and other "reformist" officers.

Col Honasan, still on the run, has maintained Mrs Aquino betrayed the ideals of the "people power" revolution. He notes there has been no thorough economic and social overhaul, and that as one of the revolt's architects, he has the right to set the revolution on track again.

This view is shared by the lone opposition senator Juan Ponce Enrile, Defence Minister before he broke with Marcos to launch the 1986 revolt with the then deputy armed forces chief Fidel Ramos, as well as Col Honasan.

On radio, Mr Enrile, whom Mrs Aquino has publicly linked to the December coup attempt, said he regretted handing power to her in February 1986, and apologised to the nation. Her "aimless leadership" had left the country poor and divided, he claimed.

Mrs Aquino, 57, widow of the murdered politician Benigno Aquino, taunted Enrile at the anniversary rally, calling him an opportunist.

● The Philippines, which has a foreign debt of $26.9bn (£16.8bn), will sign a new money agreement with creditor banks in Tokyo on February 28, which promises more than $700m in fresh loans.

The Government will seek from the 12-bank advisory committee the disbursal of about 60 per cent of this amount within three weeks of the signing of the Philippine bond programme.

Eighty banks are said to have committed new money. By Friday, a total of $709m had been pledged. This amount includes $27m committed by 10 local banks.

Top provincial official quits in Pakistan

THE top official in Prime Minister Benazir Bhutto's home province has stepped down after weeks of bloodshed sparked charges that the government could not maintain law and order, AP reports from Karachi.

Syed Qaim Ali Shah, Sind province's chief minister, resigned late on Saturday. On Sunday night, the provincial assembly elected a distant relative of the prime minister, Mr Aftab Shabaan Mirani, to replace him.

At least 70 people have died in recent ethnic strife in the southern port city of Karachi, which is Sind's capital and Pakistan's largest city, with 8m people.

Most of the clashes have been between supporters of Ms Bhutto's Pakistan People's Party and the Mohajir Qaumi Movement. The movement is largely made up of Moslem immigrants who fled Hindu-dominated India to predominantly Moslem Pakistan after 1947, when Pakistan was founded and India became independent of Britain.

The violence peaked on February 7 and 8. Clashes between police and sharpshooters belonging to rival political groups left scores dead and hundreds wounded.

The clashes were exacerbated by what many call the "Kalashnikov and heroin culture" in Karachi, a main conduit for arms for anti-Communist Afghan rebels based in northern Pakistan and heroin for Western Europe.

The army moved in and the government slapped a series of curfews on the city. Some areas remain under army control. Still, violence continues.

The English-language Nation newspaper reported yesterday that a politician from the Mohajir movement was killed at the weekend while he was sitting in his shop.

Many officials in the ruling Pakistan People's Party have been highly critical of Shah's leadership, accusing his government of being unable to control the volatile situation. The developments in Sind were doubly embarrassing to Ms Bhutto because she comes from Karachi and looks to Sind province for political support.

The Mohajir movement also used to be a close ally of the the prime minister. In October, it broke with her party because it said promises of more jobs and opportunities for the Mohajir people had not been kept.

In November, Ms Bhutto narrowly survived a no-confidence vote in the National Assembly after the 14 assemblymen from the Mohajir movement voted against her.

Since early February, elected officials from the Mohajir movement have boycotted the provincial assembly. On Sunday, only members of the Pakistan People's Party, which has a majority in the province, turned up to vote for Chief Minister Shah's replacement.

Kremlin mobilises TV to distract democrats

By Quentin Peel in Moscow

THE SOVIET authorities yesterday succeeded in defusing mass demonstrations, planned to take place across the country in favour of faster reform and multi-party democracy. The Government used repeated threats of possible violence, and the blatant blandishments of western pop videos and a lottery broadcast on television.

A huge crowd of some 150,000 gathered in Moscow even so, and thousands more in big towns and cities from Vladivostok in the far east to Minsk in the west, plus a big nationalist protest in Tbilisi, capital of Georgia.

However, the numbers who turned out to call for the ruling Communist Party to sit down at a round table with opposition forces were fewer than the organisers had hoped for, after rallies in many towns had been banned or restricted. An official meeting in Leningrad was completely boycotted by supporters of democratic organisations.

Last night, members of the democratic movement switched out their lights and lit candles in their windows, in silent protest at the campaign of official intimidation and discouragement, which included a string of government leaders warning of violent confrontation at the rallies. Even a church leader was given prime time on television to urge his followers to stay at home to celebrate the first day of the Russian Orthodox Lent.

In Moscow, a new commercial television channel was brought into the campaign, announcing at short notice a day of the top Western pop videos of 1989, and a lottery programme with prizes including video tape-recorders and colour television sets, virtually unobtainable in Soviet shops.

In the event, the Moscow rally matched in size the last big demonstration of February 4, on the eve of the Communist Party Central Committee Plenum which decided to scrap Article Six of the Soviet Constitution. (This guarantees the party's monopoly of power.) In spite of a heavy turnout of Interior Ministry troops, including men in full riot gear, the rally was organised and dignified, restricted to an apolitical route along the city ring-road, well away from the Kremlin. Even the riot police put down their shields.

Slogans denounced the slow pace of perestroika. They also attacked President Mikhail Gorbachev for alleged appeasement of conservatives. The crowd marched in almost festive mood from Gorky Park and the Foreign Ministry to a meeting-place on the ring road. There, the demonstrators diligently noted all the names of the "democratic" candidates they should support in elections next Sunday.

A resolution approved by acclamation called on the Communist Party to abandon not only its leading role, but also its privileged links with the real organs of Soviet state power, the KGB (state security committee) and the army.

The demonstrators – from various informal organisations, ranging from the Democratic Platform in the Communist Party, through Social Democrats and the dissident Democratic Union, to Anarcho-Syndicalists and even the Soviet Association of Esperanto speakers – called for direct elections to the presidency, which Mr Gorbachev proposes to make a powerful executive position.

OBITUARY

Pertini dies aged 93

SANDRO PERTINI, who died in his sleep on Saturday evening aged 93, gained enormous public affection during his term as President of Italy from 1978-85.

Although it is nearly five years since Sandro Pertini left the Quirinale Palace, many genuine tears were being shed in Italy yesterday to testify to the enormous public affection he earned during his term as President of the Republic.

He died having lived a brief, dignified retirement after a long political career.

Pertini's long political odyssey spanned the best and the worst of Italian 20th century history.

A bombardier in the First World War, his subsequent political activism in the Socialist Party was born of a profound rejection of the authoritarian, collectivist values imposed by Mussolini's Fascism. He escaped imprisonment in 1926 when he fled to Paris, only to return to Italy in 1929 as a clandestine political organiser for his party.

During the Second World War he was captured by the Gestapo and sentenced to death, only to cheat the firing squad by a daring escape from his Roman prison. By the war's end He had become a leading organiser of the Milanese partisans.

Though he could be calculating and quite ruthless, Pertini lacked the necessary feline attributes to be a natural leader in Italian post-war politics. By the time he was elected President in 1978 – by the largest ever parliamentary majority – he had become a aged father figure who was expected to treat the highest office of state as a comfortable retirement post. Instead, he travelled widely at home and abroad and became the authentic voice of a the people.

● *Large crowds of Italians* stood silently, some weeping, outside Pertini's modest home near Rome's Trevi fountain, where in years past they would gather in festive mood beneath his windows to sing Happy Birthday, Reuter adds from Rome.

"He really was a sincere person. Most politicians keep their distance from the people but he was always near to us," said one young woman.

Pertini, who brought a new style to the presidency with his habit of lunching with workers and telephoning the Quirinale Palace from a public call box, requested a simple private funeral.

His family said he would be cremated in Rome today and his ashes flown to his northwestern home village of Stella, near Savona, to be placed with those of his parents.

The Italian cabinet ordered flags to be flown at half-mast and proclaimed two days of mourning. Soccer fans observed a minute's silence before yesterday's league football games.

By the time Pertini's presidency expired in 1985, he had become close friends with the Pope, meeting him on 11 mostly informal occasions – the highest number of encounters between a Pope and an Italian head of state.

In a message of condolence, the Pope spoke of his warm friendship with Pertini, who he called a man "dedicated to freedom and democracy".

Pöhl warning on monetary union

By David Marsh in Bonn

Mr Karl Otto Pöhl, the president of the West German Bundesbank has delivered a stiff warning to the Bonn Government about the feasibility of accelerated monetary union with East Germany.

"We must do everything to bring the process to a conclusion as quickly as possible," Mr Pöhl says in an interview with the news magazine Der Spiegel today. "But it would be an illusion to reckon with it in just a few weeks."

In his most outspoken comments to date on Chancellor Helmut Kohl's offer to introduce the D-Mark into East Germany, Mr Pöhl points to the possibility of tax increases in West Germany to finance part of the "enormous transfer payments" needed to accompany reunification.

He says the longer term benefits of unification are likely to be "far higher than the costs." But Mr Pöhl also stresses the risks of a big increase in East German unemployment, as well as further emigration, as a result of the economic "shock therapy" under discussion.

Underlining increased pessimism in East German over the economic outlook, the Bonn Interior Ministry said over the weekend that just under 100,000 East Germans have entered the Federal Republic since the start of the year - an exodus causing growing problems in both German states.

Mr Pöhl's remarks are likely to fuel controversy about the effects of monetary union in the highly charged atmosphere ahead of East Germany's first democratic elections on March 18.

The Bundesbank president's bluntness will also add to strains in his relationship with Mr Kohl. Mr Pöhl termed as "unusual" and "annoying" Mr Kohl's failure to inform him of his offer just under three weeks ago of "immediate" monetary union talks. The offer, put forward on February 6, completely wrong-footed Mr Pöhl, who was himself holding talks in East Berlin the same day with the East German Economics Minister and the central bank president.

The day before Mr Kohl's announcement, Mr Pöhl said he held a long discussion with both the Chancellor and Mr Theo Waigel, the Finance Minister. "In these talks I was not told one word that such a suggestion should be put forward," he says.

Mr Pöhl emphasises that the question of monetary union is a "political decision" which in the last resort has to be settled by the German parliament. But he points out: "I cannot imagine that the Government would conclude an agreement which the central council of the Bundesbank could not agree to."

Mr Pöhl extends his previous warnings about the danger of introducing too high an exchange rate for the East Mark against the D-Mark.

Although he refused to spell out what he thought should be the correct rate, he confirmed the Bundesbank's misgivings about a 1 to 1 conversion rate, which has been suggested by some officials in Bonn to protect East German savings.

"A wrong conversion rate would have wide-ranging consequences for the competitiveness of East Germany," Mr Pöhl says.

● The issue of German reunification and its likely economic impact dominated talks between Mr Nicholas Brady, US Treasury Secretary, and Italian government leaders at the weekend, John Wyles adds from Rome.

According to Italian spokesmen, the theme will be taken up at a meeting of Finance ministers from the G7 group of leading industrialised countries which is likely to be held in Europe after Easter.

Mr Guido Carli, the Italian Treasury Minister, said after his session with Mr Brady that they had agreed that efforts would be needed to avoid "an upward push in interest rates that might slow economic development."

The recent rise in West German bond yields in anticipation that German monetary union will trigger much greater credit demands was seen by both Ministers as a threat to international interest rate stability.

Mr Willy Brandt, former West German Chancellor, yesterday addressed 100,000 East Germans from an opera house balcony at Leipzig. He urged them to work for German unity at home, instead of emigrating west.

Mr Brandt – now honorary chairman of both the West and East German Social Democratic parties – is pictured with Mr Ibrahim Böhme, chairman of the East German SPD, (right) during the latter's first party meeting, at Leipzig over the weekend. "German unity cannot mean that we all rediscover ourselves in the west. Stay here and work for improvements. Don't empty your country," Mr Brandt said, in an emotional appeal to the crowd.

Modrow to run for premiership at head of E German party

By Leslie Colitt in Berlin

EAST Germany's interim Prime Minister, Mr Hans Modrow, took the country by surprise yesterday by saying he would lead the refashioned Communist Party in elections next month after all.

He disclosed his candidacy to a jubilant party congress in East Berlin, which approved a change of name from Socialist Unity Party to the Party of Democratic Socialism (PDS).

Despite the party's widespread unpopularity, the 62-year-old leader has gained much respect among East Germans for his sense of duty. It remains to be seen whether he can save the PDS from a crushing defeat at the polls.

Mr Modrow, looking drawn after a dramatic speech to his party's congress, drew the 530 delegates to their feet when he said he would stand to keep the premiership on March 18, largely because of the many younger party members who wanted to renew socialism and the party.

Mr Modrow's main opposition rival, Mr Ibrahim Böhme, who is the favourite to succeed as premier, was confirmed over the weekend as East German Social Democratic Party chairman, at the party's first congress at Leipzig.

The East German Social Democrats yesterday presented their timetable for German unification, saying both German governments should opt for a Parliamentary Council headed by Mr Willy Brandt, former West German Chancellor. *Such a council would draft* a new German constitution, to be approved by a referendum in both Germanys.

In a speech to the SPD delegates, Mr Hans-Jochen Vogel, West German SPD chairman, hit out at West German Chancellor Helmut Kohl by warning against a "chaotic incorporation" of East Germany by West Germany, and advocated an orderly growing together. He accused the Christian Democrats in Bonn of carrying out an "infamous slander campaign" against both SPDs.

The first election rally held by an alliance under New Forum, the East German opposition movement which spearheaded the overthrow of the previous communist leaders, was attended by only 1,500 supporters at Schwerin.

European Haughey off to US

By Kieran Cooke in Dublin

MR CHARLES Haughey, the Irish Prime Minister, arrives in Washington today, for talks with President George Bush and other officials, in his present role as President of the European Community Council of Ministers.

Irish officials have been keen to play up the significance of the visit, saying the rest of the EC recognises the special relationship Ireland has with the US, and the role it can play in persuading Washington to take a more active part in a changing Europe.

Mr Haughey says there is a need for some sort of US-EC political apparatus which would parallel established institutions dealing with trade matters between the US and the EC.

The Prime Minister adds that he will be putting "specific proposals" to Mr Bush as to how the US can be more closely involved in events in Europe. Mr Haughey will be briefing the president on the latest EC thinking on German reunification, and will report US attitudes on the issue to a special EC summit in Dublin in April.

While Mr Haughey will want to concentrate on political issues, the problems of US-EC trade are also likely to feature in his Washington talks. A central figure in US-EC trade wrangles is Mr Ray MacSharry, Irish former Finance Minister, now EC Agriculture Commissioner.

He has angered the US by what is seen in Washington as his increasingly tough approach in the current round of Gatt negotiations and to a range of US-EC trade disputes.

Ireland is increasingly turning away from its traditional relationship with the US and *towards Europe. A central feature* of this is the direction of Ireland's trade: in 1989, the country had total trade with the rest of the EC worth nearly I£19bn (£17.75bn). With the US, total trade in 1989 was only I£3bn.

Hurd faces Gibraltar pressure

By Peter Bruce in Madrid

MR Douglas Hurd, UK Foreign Secretary, is likely to be pressed hard to find ways to stop the large-scale smuggling of tobacco and, more recently, drugs, from Gibraltar into Spain, when he arrives in Madrid today for talks on the British colony's future.

Mr Francisco Fernández Ordóñez, the Spanish Foreign Minister, has set a combative tone for the annual round of talks by complaining loudly about Gibraltarian smuggling and money-laundering.

Articles have also appeared in the local press warning that Spain might be forced to build an airport nearby if the Gibraltarian Government continues to refuse to implement the UK-Spanish agreement of 1987 on joint use of Gibraltar airport.

Spanish irritation with Britain's inability to push the colonial authorities into accepting joint use of the airport is taken for granted now. But diplomats in Madrid have been surprised at the angry tone Mr Fernández Ordóñez has used recently to attack Gibraltar.

In part, this stems from an incident last year when two Spanish policemen were arrested in Gibraltar, having chased some Gibraltarian smugglers from Spanish waters. The suspects were not arrested and, when the Spanish policemen were due to return to the colony for trial, Madrid refused to let them.

Britain is obliged to let the Gibraltarians decide for themselves on whether to abide by the airport agreement, but Mr Joe Bossano, Gibraltarian Prime Minister, has sworn never to do so, and the impasse remains what may well be the only difficulty in UK-Spanish relations.

For the first time, the British colonial governor is expected to attend the talks today, as part of an attempt to increase pressure on, and isolate, Mr Bossano.

Even Madrid accepts that implementation of the airport accord will be slow, and Gibraltar plays little part in Spanish politics.

But Mr Bossano's refusal to do a deal on the airport is a direct challenge to Madrid, if not to London.

● The Spanish economy is expected to grow by 4 per cent this year, with the public sector deficit falling to 1.6 per cent of GDP, according to the draft 1990 budget approved by the cabinet at the weekend.

Mr Carlos Solchaga, Finance Minister, said the budget involved a 10.3 per cent increase in total outlays and a 10.7 per cent increase in income. He described it as "moderately restrictive", in line with Government efforts to cool the economy. Spending last year was budgeted to grow 13.8 per cent.

The minister said the Government was standing by its inflation forecast of 5.7 per cent this year – more than one percentage point point down on that of 1989. He insisted that a recent series of agreements on pensions and salaries with the country's main trade unions – the price of political peace for the much-criticised minister – in no way endangered budgetary discipline.

But the Government, which won a *parliamentary majority* of one seat last October in a general election, is planning a 13.6 per cent increase in its contributions to social security, after increases of just over 10 per cent in 1988 and last year.

Bulgaria crowd clamours for speedier reform

MORE than 80,000 Bulgarians yesterday staged their country's biggest anti-communist protest since President Todor Zhivkov was ousted in November, Reuter reports from Sofia.

The crowd, which packed a square near Communist Party HQ in Sofia, waved banners saying "Enough nightmares" and "Liberty, Freedom, Justice!"

Leaders of the opposition Union of Democratic Forces (UDF), which had organised the rally, were cheered as they urged an end to Communist rule. Bulgaria's new Communist leaders have renounced automatic right to rule and begun talks with opposition groups. But the UDF says the party is lagging on economic reform and delaying changes needed to give the opposition a fair chance in elections due in late-May.

● *Peter Riddell adds from Washington:* Bulgaria has formally applied to join the International Monetary Fund and the World Bank. The Bulgarian application to the IMF, a necessary preliminary to membership of the World Bank, will be followed by a visit to Sofia in April or May by an IMF mission, to discuss Bulgaria's economy and the size of its subscription or membership quota.

This year, Czechoslovakia applied to revive lapsed membership. An IMF mission will visit Prague a week hence. The US and other leading shareholders have supported Prague's application.

Poland, Hungary, Romania and Yugoslavia are already members of the IMF and World Bank. Poland recently signed large stand-by and loan pacts with both bodies, while Mr Ferenc Bartha, president of Hungary's National Bank, was in Washington last week to agree a $210m stand-by arrangement with the IMF. This is preliminary to an international bridging loan and larger IMF medium-term adjustment assistance, on which talks will start this year, as well as $350m-$450m in World Bank finance.

The IMF recently sent a mission to Bucharest for talks with the new Romanian Government.

WORLD ECONOMIC INDICATORS

UNEMPLOYMENT

	Jan.'89	Dec.'89	Oct.'89	Jan.'88
W.Germany 000's	1,973	1,998	2,022	2,097
%	7.7	7.8	7.9	8.1
USA 000's	6,535	6,658	6,652	6,625
%	5.3	5.3	5.3	5.4
UK 000's	1,687	1,639	1,612	2,074
%	6.0	5.8	5.7	7.4
Belgium 000's	362	352	347	390
%	10.0	9.9	9.9	10.5
	Dec.'89	Nov.'89	Oct.'89	Dec.'88
Japan 000's	1,330	1,410	1,430	1,460
%	2.1	2.2	2.30	2.3
France 000's	2,586	2,578	2,599	242.9
%	9.8	9.8	9.8	10.5
Italy 000's	3,905	3,911	3,896	3,847
%	10.9	11.0	10.9	10.6
	Nov.'89	Oct.'89	Sept '89	Nov.'88
Netherlands 000's	365	378	381	412.0
%	9.1	9.2	9.3	10.3

Source: (except US, UK, Japan) Eurostat

Brussels attempts to stamp out nationalistic buying

Lucy Kellaway reports on the EC Commission's drive to open up the public procurement market

FOR some 20 years the European Commission has been trying to correct the blatantly nationalistic habits of big public and monopoly buyers. They spend 15 to 20 per cent of Community gross national product and all but 2 or 3 per cent of that goes straight into the hands of their own national companies.

Last week its efforts took a leap forward with the approval of a directive that should open up buying in four of the most important sectors – water, telecommunications, transport and energy.

This directive is at the centre of the campaign to break open the public procurement market. These so-called "excluded sectors", which account for over half the total, have been left out of previous public procurement measures on the grounds that many of the buyers were private companies and outside the Commission's usual sway.

There is a lot to be gained from opening up procurement. One Commission report put the cost of biased purchasing at Ecu21.5bn (£15.4bn) a year or 0.6 per cent of Community GNP.

Even if only a tenth of that *could be recovered, it* would still be worth having. In both macro-economic and industrial terms it is one of the most important aspects of the single market: get rid of nationalistic buying, and you also get rid of an important reason for fragmented and uncompetitive industries. It is of symbolic importance too; if the big purchasers go on buying national, the credibility of the whole 1992 programme will look thin.

To get there, aged and toothless directives dating from the 1970s covering the purchasing of public works and supplies have recently been strengthened. The amount of information that bidders must give has been greatly increased, as has the period of notice. New enforcement measures are also being introduced. And after the excluded sectors, the final step is to bring services (such as consultancy) within the net.

The excluded sectors directive is radical. It no longer distinguishes between public and private, but between those purchasing companies that are competitive, and those that are either monopolies or under any kind of government influence. "The debate is not about *public* procurement any more," says a Commission expert. "It is *about breaking the long-stand*ing incestuous relationships between national monopolies and their client suppliers."

This shift initially drew a howl of protest from industry. Companies argued that the proposed thresholds – above which the rules will apply – were too low, the process of bidding too cumbersome, and the scope too broad. The result, they said, would simply be higher costs and lower profits.

As a consequence, various changes have been made. The thresholds have been lifted somewhat (although many companies still feel that Ecu5m for a works contract, and about Ecu400,000 for most supplies, are too low) and the bidding processes have been greatly simplified.

Important exceptions have been made in some areas, and the Community's poorer companies have been given a three- to four-year breathing space in which to comply. In the energy sector, purchases by utilities of gas and electricity have been excluded altogether, mainly because any talk of opening up the energy market meets immovable resistance from some member states. For the time being, at least, that tough nut has been left to energy ministers to crack.

The demands of the UK Government and the oil industry have also been heard, so that equipment for coal, oil or gas exploration is outside the rules. The oil industry had argued strongly that it was competitive anyway and did *not* need such cumbersome constraints. Others pointed out that almost 90 per cent of UK North Sea orders were won by British companies; they claimed that the industry was looked after by an overtly protectionist Offshore Supplies Office, and that the Government was inclined to reward or punish oil companies through the award of exploration licences.

The compromise solution is to make the exemption conditional: any sign of bias in the granting of either licences or contracts and the Commission will reconsider the matter.

Despite such exceptions the directive's scope directive is broad. Most pleas for special treatment were ignored: France vainly attempted to get water supplies left out.

The next task is to decide how the new measures should be enforced. Later this spring the Commission will put forward a directive on compliance.

This is proving a legal minefield, because the same legal conditions that can be imposed on a public company cannot be imposed on a private one. Member states have long made it clear that any system that would allow the Commission to suspend contracts when it suspects wrong-doing is unacceptable. Other safeguards are being considered, such as regular independent audits of private companies, with the results made public.

To cope with the enforcement problem the Commission's procurement team has grown tenfold in the past two years – although at about 40 people it is still doubtful whether it can manage the task ahead even if it uses outside services where possible.

More important, though, will be whether companies themselves are prepared to blow the whistle on buyers which have wronged them – something they may not want to do for fear of losing future business. However, the example of Bouygues, the French construction company which complained about the award of a construction contract in Denmark, is encouraging. Denmark was challenged by the Commission, and Bouygues at least got its bidding costs back.

Very slowly, attitudes seem to be changing. Even before the assorted directives come into place over the next three years, there is hope that the market may have opened a bit. One upon a time there would have been no point in an Italian company bidding for a contract in, say, Manchester – it would have been a waste of time and money. More recently, however, a German company has won a contract to build the Marseilles metro, and an Italian company has won a contract on the Lyons bypass. There is also some evidence that problems are being aired; and even though most of the discussion is in such national bodies as the Confederation of British Industry, the Commission is trying hard to get some cross-border talking going.

At a recent conference in Brussels organised by the Centre for European Policy Studies, four conditions were suggested for the success of the Commission's efforts. The directives must be effective; purchasers must be prepared to change their behaviour; lower prices must actually lead to greater efficiency; and the benefits must go to EC companies rather than to third countries.

This last condition has proved the trickiest part of the deal on excluded sectors. Some member states argued it was provocatively protectionist to introduce any new barriers around Europe at a time when the General Agreement on Tariffs and Trade is trying to get rid of them. Others said Europe should match the kind of barriers that exist in the US or Japan, giving European companies a big price preference.

The debate was largely tactical: the issue will be decided by Gatt at the end of this year, two years before the directive comes into force. In the end, however, member states agreed that EC companies would be given a small price advantage of 3 per cent. The Commission, at any rate, seems pleased with the outcome, which is more or less exactly what it wanted in the *first place.*

Greeks fail to elect head of state

THE Greek Parliament yesterday failed to elect a head of state in its second round of voting after the conservative New Democracy party abstained from the roll call, AP reports from Athens.

The action made it impossible for either of the two candidates – incumbent President Christos Sartzetakis and former Parliament Speaker Yannis Alevras – to receive the necessary number of votes.

New Democracy, Greece's largest political group, also abstained in the first round of voting last Monday and has said it will abstain again in the third.

A candidate for a five-year term in the largely ceremonial post of president must win at least 200 votes in the first two rounds of balloting in the 300-member unicameral Parliament and 180 votes in the third. The conservatives hold 148 seats, the socialists 128 and the Communists 21. Three seats belong to independents.

Mr Alevras, backed by the socialists, received 127 votes. Mr Sartzetakis received 21 votes from the Communist alliance. Four deputies were absent from the chamber.

In the first round of voting, Mr Sartzetakis, who ran unopposed, received 151 votes.

House Speaker Athanassios Tsaldaris said the third round will be held on Saturday March 3. Parties may propose a different candidate in each round.

CBI points to continued growth in British exports

By **Peter Norman**, Economics Correspondent

FOREIGN DEMAND for British manufactured goods continues to grow, providing one bright spot in an otherwise gloomy picture of weak orders and stagnant production, a new survey of UK industry shows today.

The Confederation of British Industry reported that its industrial trends inquiry for February found, by a narrow margin, that manufacturers were reporting export orders above normal for the first time since September 1988.

At the same time, however, overall demand had weakened significantly from a year ago. The survey, which polled 1,408 companies in the first three weeks of this month, suggested that production "will increase hardly at all over the next four months," in marked contrast with the early part of last year when CBI surveys pointed to strong growth in output in the months ahead.

The CBI's survey covered companies responsible for roughly half the exports and employment in UK manufacturing industry.

It gave strong support to the latest forecast of the British economy from the London Business School.

The LBS forecast sees a strong rise in manufacturing exports this year while the economy goes through a "growth recession."

British gross domestic product will rise by only 1 per cent this year after 2.3 per cent in 1989, the LBS said. However, growth will recover to 2.6 per cent next year as current tight policies are eased in the run up to the next general election in 1992.

The LBS warned that the main recessionary element in the economy is likely to be company spending, with investment flat and destocking significant. These fears are borne out by the CBI survey.

The CBI said that the continued weakness of order books is preventing companies from raising prices.

On balance, fewer manufacturers said they were planning to raise their factory gate prices over the next four months than in any February since 1986.

Although stocks of finished goods were considered "more than adequate," the latest CBI survey also contained evidence of destocking.

Mr David Wiggleworth, the chairman of the CBI's economic situation committee, said the falling number of companies expecting to raise prices was good news for the consumer and the fight against inflation. But he warned: "With demand weakening, profits are also being squeezed and less money is being earned for investment, which is bad news for the future competitiveness of British industry."

He repeated the CBI's call for "some inducement in next month's Budget" to encourage manufacturers to maintain investment growth.

The CBI survey found total order books weakened slightly in February with 35 per cent of companies saying they were below normal against 18 per cent reporting above normal orders.

The balance, which measures the trend, was minus 17 per cent this month against minus 16 per cent in January and plus 2 per cent in February last year.

Overseas demand strengthened slightly, however, with 22 per cent of firms reporting above normal export orders and 21 per cent orders below normal.

The positive 1 per cent balance contrasted with a zero balance in January and negative monthly balances of between minus 4 and minus 14 per cent last year.

London Business School forecast, Page 18

TUC keen to resume talks on health workers' pay

By **Our Labour Staff**

AS THE dust settled after marathon negotiations in the ambulance dispute, the Trades Union Congress yesterday said it was keen to resume talks with the Government on long-term pay arrangements for all National Health Service workers.

The TUC health services committee has had periodic meetings since the early 1980s with health ministers on the issues of public expenditure, pay determination and arbitration in the NHS.

The discussions were put on the back-burner at the beginning of the six-month ambulance dispute. But there was now no reason not to resume them, said the TUC: some of the issues raised during the dispute applied to all NHS staff. The TUC would like to see, in particular, an agreed system of conciliation.

Meanwhile, ambulance workers on Merseyside opposed to the nationally-negotiated deal were confident that an all-out strike planned to start today would be solid.

Balloting arrangements throughout the country are due to begin today. Each of the five unions will be conducting its own ballot.

Pearson negotiating for theme park

By **Richard Donkin**

PEARSON, the UK conglomerate which publishes the Financial Times, is negotiating to buy Alton Towers, the Staffordshire theme park owned by Mr John Broome, for about £50m.

The deal, which is due to be announced in about three weeks time, will allow Mr Broome to clear most of the debts on his beleaguered Battersea Power Station leisure development, in London, leaving him in sole control of the site with debts, according to one estimate, of between £10m and £15m.

The sale is thought to have been encouraged by his backers on the Battersea project, a banking syndicate headed by Security Pacific National Bank, which has already ploughed about £55m into the scheme to convert the power station into a pleasure dome.

The syndicate of four banks – Security Pacific, Long Term Credit Bank, of Japan, Bank of Nova Scotia, and Tokai, another Japanese bank – is in a powerful position to influence the deal since the banks have charges over the Alton Group which has cross guarantees on the Battersea project.

Work on the art deco power station, listed for its historical interest, was halted by the banks 11 months ago and the building has since been left as an empty roofless shell. The syndicate became nervous when site costs escalated and Mr Broome failed to attract a further £40m in equity that the syndicate had insisted upon to continue with the project.

Mr David Cooper, a lawyer representing Battersea Leisure, said the original plan for the power station had now been scrapped.

A far more extensive scheme, which retains the theme park concept for the power station, has been submitted to Wandsworth Council.

Mr Cooper said new plans covered a 52-acre site encompassing British Rail's south London goods yard and Battersea Wharf owned by Parc Securities, part of Mr Werner Rey's Swiss-based Omni Holding empire. Mr Cooper said no firm agreement existed between the three parties.

Any deal drawing in the enlarged site ... hinges on the granting of planning permission.

Pearson wants Alton Towers to add to its leisure interests within the Madame Tussaud group. Mr Frank Barlow, managing director and chief operating officer of Pearson confirmed yesterday that negotiations were being carried out to buy Alton Towers. He refused to comment further or to confirm the price.

Pressure to end BAe strike intensifies

By **Diane Summers**, Labour Staff

PRESSURE to end the 17-week British Aerospace strike is expected to intensify this week in the run-up to a board meeting of the European Airbus consortium.

Talks are likely to resume between unions and management at the Chester plant where most of the Airbus production is based. The strike at Chester threatens to bring assembly of Airbus airliners at Toulouse, south-west France, to a standstill. At the end of last week the company said that it had received no communication from unions since talks were adjourned on Wednesday.

However, Mr Bill Jordan, president of the AEU engineering union, said that local union negotiators had made "constructive amendments" to existing proposals and the ball was now back in BAe's court.

Workers at Preston, Chester and Kingston-upon-Thames are striking as part of a national campaign by engineering unions for a 37-hour working week. Some of the sticking points at Chester were "problems of presentation," Mr Jordan said. One example was the wording on the company's need to use contractors in the short term. There also continued to be a problem about a small number of white-collar workers for whom "an honourable and satisfactory settlement had to be found," Mr Jordan added.

The Airbus supervisory body is due to meet on Friday when the BAe strike is expected to top the agenda. Aerospatiale – the French state-owned aerospace group which has a 37.9 per cent stake in the Airbus programme – will raise the issue of penalising BAe for the strike.

An article in the Airbus statutes could make BAe liable for 40 per cent of the $300m the strike has already cost the European consortium. BAe has so far claimed that the article did not apply because the strike was a case of *force majeure*.

Teachers to be balloted over pay and workloads

By **Diane Summers**, Labour Staff

MEMBERS of the UK's second-biggest teaching union will be balloted this week on proposals for a one-day strike over pay and workloads. Any action would be the first by teachers in three years.

The ballot follows a special salaries conference held at the weekend by the 118,000-strong National Association of Schoolmasters and Union of Women Teachers. About 800 delegates voted for the ballot.

Mr Fred Smithies, General Secretary, said the action was to "put down a marker warning the Government that teachers have had enough". The union also wanted to "focus public attention" on the serious problems faced by the education system," he said.

According to the union, this was the second year in succession that teachers in the classroom would end up with a pay cut: they would receive only 7.3 per cent across the year, while the increase in the cost of living had been running beyond 7.7 per cent.

Teachers were awarded an 8.3 per cent rise by an interim advisory committee which reported earlier this month but it is to be implemented in two stages: the first on April 1 and the second on January 1 next year.

The *National Union of Teachers*, the largest teaching union is unlikely to join any strike action.

Blue Arrow shareholders find a shining knight

Eric Short looks at the career of the soft-spoken Scot who has led negotiations on behalf of investors

THE BLUE Arrow affair has left many in the City with tarnished images. One man who has not suffered, however, is Mr Donald Brydon, outgoing chairman of the investment committee of the National Association of Pension Funds. His reputation acquired an extra gloss last week.

Mr Brydon has been the leader of a team drawn from institutional shareholders negotiating with County NatWest and UBS Phillips & Drew, the investment banks which acted as underwriters to the Blue Arrow rights issue.

For Mr Brydon the Blue Arrow negotiations represent a climax to two eventful years as chairman of a body which now manages assets of more than £250bn.

His is a powerful voice in the City although it has hitherto been muted.

Mr Brydon, 44, is a soft-spoken Scot with a build that reflects his rugby-playing days. He is managing director of BZW Asset Management, part of the investment banking arm of Barclays Bank group where he is responsible for dealing with a wide range of clients and handling life and unit trusts as well as pension funds.

He was the first chairman of the investment committee in many years to come from an investment house. His experience at BZW may have given him a wider-ranging vision and deeper experience in dealing with people than would normally be acquired by an in-house pension fund investment manager – the usual background for chairmen of the NAPF investment committee.

Negotiation for compensation over the Blue Arrow issue started within days of the arrest of those at the centre of the affair.

The investment committee was receiving inquiries from members affected by the *débâcle* who asked what was to be done. Mr Brydon's decision to take immediate action was characteristic of a man who, on his own admission, is a hands-on manager who believes in getting things done and dislikes waiting for others to take action.

His attitude was that "it takes time for the formal processes to achieve results. One can achieve better results quicker by using informal processes."

The NAPF is powerful enough to act on its own. Yet one of Mr Brydon's early achievements in his chairmanship was the resurrection of the Institutional Shareholders' Committee – a move he made in conjunction with Mr Colin Parker who was then chairman of the investment protection committee of the Association of British Insurers.

The primary purpose of the committee was to act as a forum for communication between corporate management and institutional investors. In Mr Brydon's words, "it was to show government that institutional investors not only accepted responsibility as shareholders but were prepared to do something about it."

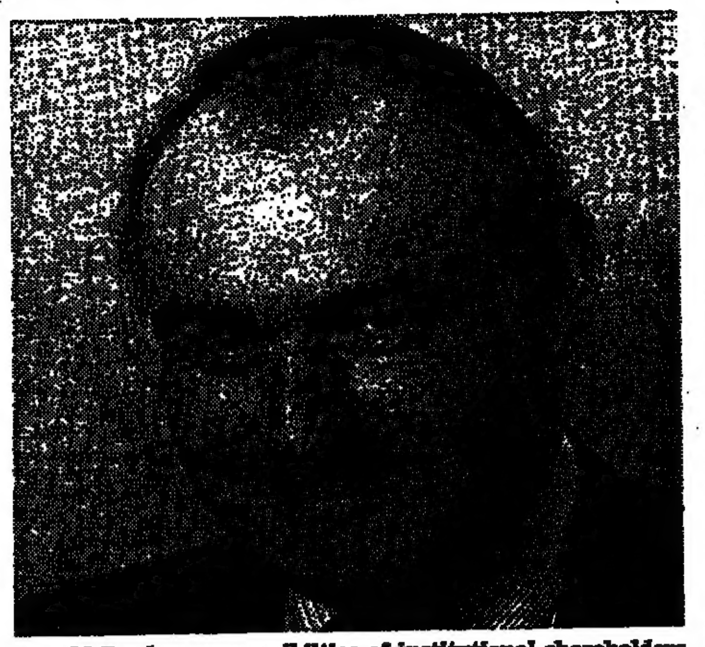
The committee had already flexed its muscles over management buy-outs, issuing a statement of practice on MBOs reflecting the collective attitude of all institutional investors.

"Expressing a consensus view on the subject will give that view much more force," explains Mr Brydon. The statement proved that the committee was a convenient mechanism through which to express such views.

However, the Blue Arrow affair gave the committee a chance to show what it could do collectively.

Any agreement reached in the negotiations – and Mr Brydon stresses that these are by no means concluded – will apply to individual shareholders who dealt on the market as well as to institutional shareholders affected by Blue Arrow.

said: "There is no mechanism at present for small shareholders to seek redress effectively," he said.



Donald Brydon: responsibilities of institutional shareholders

Like many others, he feels that the complaints mechanism laid down within the financial services framework has yet to prove itself, and even if it does so it is likely to act slowly.

He says the Blue Arrow affair is an opportunity for the ISC to show that it can act on behalf of small investors as well as for large institutions, although he admits that in the present negotiations the ISC can only exert commercial pressure.

He says this is far more likely to produce satisfactory results than the legal and regulatory systems. Mr Brydon says going to the courts should be only a last resort.

Mr Brydon's chairmanship of the NAPF investment committee has ended and that of the ISC is due to end in June. He was asked to stay on as head of the negotiating team until the final deal was concluded. He needed no persuasion.

He says that neither he nor the NAPF investment committee intend to get involved in every problem that arises provided an adequate solution is already available.

He quotes the Ferranti affair when members bombarded the investment committee with inquiries about what was being done. When the NAPF found that matters were already in hand, it stood by and kept itself informed. Mr Brydon saw no reason to interfere simply because the NAPF was involved.

Whatever the outcome of Blue Arrow, Mr Brydon believes the crowning success of his chairmanship was the production of the book Creative Tension? reviewed last Thursday in the Financial Times. His book, he says, "will be around long after the Blue Arrow affair has been forgotten."

The book represents the expression of all Mr Brydon's attitudes on collective shareholder responsibility.

Parkinson seeks Patten accord on traffic increase

By Ralph Atkins

MR CECIL Parkinson, Transport Secretary, yesterday backed a "practical" approach to tackling the environmental consequences of increasing road traffic, arguing that individuals should be able to choose their preferred method of travel.

He confirmed that a Cabinet committee was considering proposals for making car travel more expensive, but said that such a move would be "very unpopular."

His comments on BBC Television's On the Record programme appeared to put Mr Parkinson at odds with Mr Chris Patten, the Environment Secretary, who foresees an active and interventionist stance on the environment by the Government.

Mr Parkinson implicitly admitted that disagreement existed about likely traffic levels in the 2020s. He said they had been put at 80 per cent to 142 per cent higher than now.

"I hope that he [Mr Patten] and I can agree on a set of figures around which we can both base our common policies and that is what we are working towards."

He added that his aim was to create a "range of options for people when they come to make their travel arrangements." The road programme was not the only contributor – rail was also important.

But he said, "The public don't need directing. I'm creating a range of options so that an adult British public can exercise the option in a way that suits it, taking into account the economics and the environment."

The Government was investing "huge sums" in Britain's public transport system, Mr Parkinson said. But it would be wrong either to expect that a large-scale shift towards rail was possible or to exaggerate the environmental gains.

"If we doubled the use of the railway we would reduce carbon dioxide emissions by 3 per cent," he said.

Mr Parkinson said investment in British Rail would increase in real terms over the next three years to "a figure which the chairman of British Rail described as as much as we can practically manage."

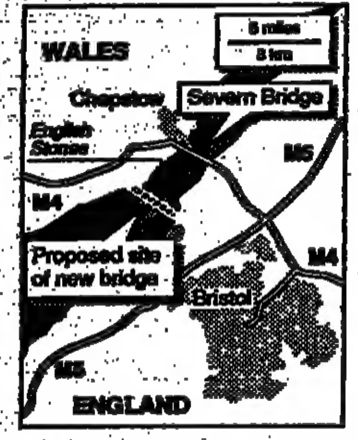
But he emphasised that car traffic was not going to stop growing. The UK had fewer cars per thousand people than "virtually any other major country in Europe" and the level would rise as economic prosperity increased.

He added that the Government wanted to get fuel efficiency back at the top of manufacturers' priority lists.

Decision next month about Severn bridge

By Andrew Taylor, Construction Correspondent

MR Cecil Parkinson, Transport Secretary, must shortly make a decision on whether to use public or private money to finance the building of a £600m–£650m second bridge across the Severn estuary.



He must also choose which of two consortia will build the crossing at English Stones, three miles downstream from the first Severn Bridge. One of the consortia contains a leading French construction company. The first bridge, built 23 years ago, has insufficient capacity to carry all the traffic generated by the much-improved economy of South Wales.

On the shortlist are John Laing, the British construction group, together with GTM Entrepose of France; and Trafalgar House, the British construction, property shipping and hotels group, with Balfour Beatty, the construction arm of BICC, the British engineering group.

Mr Parkinson favours a private-sector solution, but he must first convince the Treasury, which inclines towards public investment in these matters. It feels that taxpayers' money is cheaper than that raised from banks and shareholders who expect interest payments and dividends.

The Treasury has been defeated on that argument before – most notably at Dartford where Trafalgar House is building a privately-financed toll bridge across the Thames.

Treasury officials, however, insist that private-sector schemes should provide value for money at least as good as public-sector schemes. It compares the worth of privately-financed projects by calculating the net present value of the scheme to the promoter – based on a complicated formula involving proposed toll rates, traffic forecasts and the life of the concession.

As far as the Treasury is concerned, the lower the net present value to the promoter, the better value for money for the country. That, however, could increase tolls, particularly during the early years of operations when the burden of private debt would be at its greatest.

Toll rates for crossing the Severn are likely to be very sensitive politically, particularly for a Government which faces a potentially difficult general election and which is anxious to attract voters outside its traditional southern heartland.

The existing Severn bridge is viewed by Welsh businesses as an economic lifeline to the rest of the kingdom. It is also viewed as such by companies, particularly from Japan, which have been persuaded to establish operations in South Wales.

The temptation to choose the lowest-cost option could store up other problems if the project ran over budget and required refinancing.

That has already happened with the privately-financed Channel tunnel.

The site chosen for the new Severn crossing is much wider than for the original bridge and construction will take place in fast-flowing water. It will be difficult to engineer and that will increase the risk of cost overrun.

One of the consortia bidding for the building contract says the bridge will need about 40 piers sunk into the river bed, compared with just two piers for the existing bridge.

The difficulty of the choice facing transport officials is reflected by the fact that the two groups on the shortlist have each proposed several options depending upon which direction the government takes.

A private toll bridge would involve the successful bidder taking over the existing toll bridge and its debts of £120m. The likely life of a concession to a private promotor is expected to be 20 to 35 years.

The Laing consortium may be the winner, as its bid is understood to be £40m to £50m lower than that from the Trafalgar House group. But the decision, expected early next month, will not rest on cost alone.

Training level of travel managers is questioned

By David Churchill, Leisure Industries Correspondent

MORE than three quarters of all corporate travel managers in the UK have had no formal training in travel planning, according to a survey published by airline guide ABC World Airways.

The survey supports previous findings which point to the low status attributed to travel management by many British companies.

"Three out of four travel managers we spoke to recognised that such training would be useful, enabling them to save their companies time and money," said Mr Jeremy Griffiths, publishing director for the ABC guide.

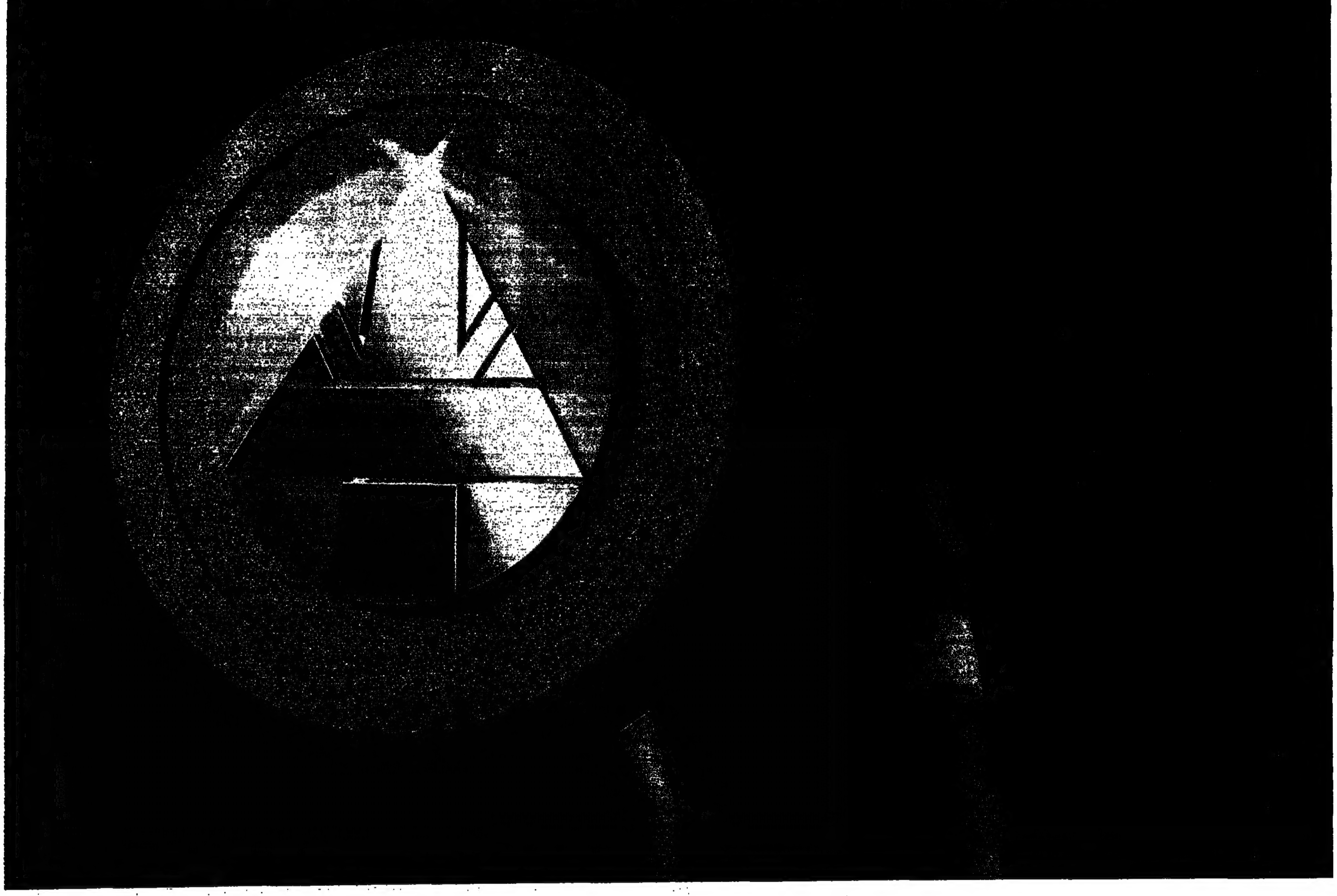
"It is quite astounding that people whose role is to handle up to £1m worth of corporate travel arrangements for their companies have had no formal guidance on how best to management business travel for their executives."

An American Express survey published last year found, for example, that many companies gave executives cash advances to pay for travel and entertainment.

Some companies had up to £500,000 at any one time tied up in that way.

The American Express survey said some of those companies found that relatively few middle and junior managers had corporate charge cards.

British Aerospace British Muscle



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Sir Colin Marshall: *optimistic for the future*

BA begins drive to reverse decline in European network

By Paul Betts, Aerospace Correspondent

BRITISH AIRWAYS has launched a three-year plan to improve the deteriorating financial performance of its European operations.

These account for 40 per cent of BA's annual turnover, but contributed only £16m, or less than 5 per cent, of the company's operating surplus in 1988-89. That compared with £81m, or 27 per cent, in 1985.

BA will try to restore the European network's profitability by developing a new "hub" in Brussels through its stake in the new Sabena World Airlines, and also by improving punctuality, in-flight and ground services, and by expanding East European services.

Mr Liam Strong, BA head of marketing and operations, said the decline in the European network had been caused by the high costs of providing increased capacity and flight frequencies. Capacity increases of 44 per cent during the last five years have outstripped traffic growth of 29 per cent.

Moreover, BA's margins had been squeezed because of the impact of increased competition on several high-density routes, with subsequent inadequate fare increases, Mr Strong said. BA has invested £34m in a 20 per cent stake in Sabena, the Belgian airline, in which KLM Royal Dutch Airlines has also acquired 20 per cent. BA expects to show a small loss from the venture in the first year, changing to a positive result in the second year.

The Sabena partners intend to launch a "hub and spoke" operation in the summer of 1991, feeding their short-haul European services into long distance routes operated out of Brussels.

The Belgian airport will also be connected to Manchester and Birmingham to feed traffic into BA's long-distance services out of these regional hubs. Sir Colin Marshall, BA chief executive, said the European destinations served by the new Sabena would increase from 45 to 75 destinations over the next four to five years.

To take advantage of opportunities in Eastern Europe, BA is already boosting capacity on routes to Prague by 36 per cent, to Budapest by 26 per cent, and to Warsaw by 17 per cent.

Among other moves to improve the performance of its European operations, BA is planning to focus more on selling tickets in countries on the Continent where the yields are greater than out of the UK, as well as launching programmes to gain a bigger share of lower fare leisure travel.

Mr Strong said there were opportunities to improve BA's European in-flight services by providing more foreign newspapers and multilingual cabin crews.

Among planned improvements in ground services was a new lounge for business class passengers at Heathrow's Terminal 1 in April. BA is also planning to experiment with valet parking for customers at Terminal 1.

Rationalisation of the short-haul fleet is also expected to benefit overall performance in Europe.

Labour opens fresh attack on Government

By Ralph Atkins

LABOUR yesterday launched a fresh attack on the Government's handling of the economy as opinion polls gave it a commanding lead over the Conservatives.

A series of *statements* and speeches by senior opposition spokesman sought to exploit Government embarrassment about the unpopularity of high interest rates and the poll tax.

The onslaught is likely to be renewed on Wednesday when trade figures are expected to show a current account deficit of more than £1bn in January.

Mr Kenneth Baker, Conservative party chairman, said the *results of two opinion polls* were "disappointing." The Sunday Times/Mori survey gave Labour a 17 percentage point lead over the Tories. An *Observer/Harris poll put it* 12 points ahead.

Speaking on BBC Radio, Mr Baker said the Government was suffering because of the *consequences of anti-inflation* strategy. "If we were to change course now on our economic policy and do things that might be considered popular, *then* that would *be* very bad for the country in 1991 and 1992."

He added: "We have never run away from our problems as a *Government.*"

But Mr Gordon Brown, Labour's trade spokesman, cited an interview with the Prime Minister in The Sunday *Times as evidence of the* economic "incompetence" of the Conservatives.

He claimed that in saying her ambition was to "catch up *with France,*" *Mrs Thatcher* had admitted that economically Britain lagged behind the French and was far behind the West Germans.

In her interview, the Prime Minister said the inflation trend was downwards and the economic outlook was "good."

Mr Brown responded: "Her self-satisfied and complacent stand on interest rates and the poll tax shows that even when the country believes she has gone too far *she is still seized* by the obsession she has not yet gone far enough."

At the same time Ms Margaret Beckett, a Labour treasury spokesman, *published the* results of a survey showing the impact of increased electricity, gas, and water costs, rising rail and tube fares and higher *mortgage rates.*

She said the Government was scoring inflationary "own goals." A family with two adults living in their own *home and commuting* to work would be between £9 and £27 a week worse off.

Mr Gerald Kaufman, shadow Foreign Secretary, said Mrs *Thatcher's isolation on international* issues was causing serious damage.

"Her insistence on opposing the views of our allies and *partners in international* organisations can mean less trade, fewer jobs, a vulnerable sterling exchange rate and therefore higher interest rates and *higher mortgages,*" Mr Kaufman said in a speech in Bolton.

Government embarrassment over the poll tax was intensified by *comments by Mr Michael* Heseltine, former Environment Secretary and likely future contender for the Conservative Party leadership.

Speaking on TV-am, he said: "I was always convinced that we should not proceed with the poll tax once we had looked at it in depth in the early 1980s."

Scottish Labour Party executive votes for PR

By James Buxton, Scottish Correspondent

THE EXECUTIVE of the Labour Party in Scotland voted yesterday in favour of an electoral system based on proportional representation (PR) for any future Scottish parliament or assembly.

The executive's decision, taken on a series of casting votes by the chairman of the Scottish party, Mr Mark Lazarowicz, at a meeting in Glasgow, will be put to the annual conference of the Labour Party in Scotland next week.

The executive declared that the first-past-the-post system, under which Labour won nearly 70 per cent of the Scottish seats at Westminster with only 42 per cent of the vote in the 1987 general election, would not be acceptable for a Scottish parliament. Such a system placed formidable barriers in the way of smaller parties.

There should be a system under which seats won by any party should reflect the votes cast, while preserving, as far as possible, a link between individual constituencies and members.

The issue of PR has come to a head because the Scottish constitutional convention, a body drafting a scheme for a devolved Scottish parliament or assembly, will be dealing with the issue of electoral systems in April.

The Social and Liberal Democrats are insisting on PR as a condition of their staying in the convention, of which they and Labour are the only significant parties involved. A split on voting systems could cause the collapse of the convention.

Several trade unions in Scotland back PR, notably the Transport and General Workers' Union.

Major leads the fight for his party's survival

Philip Stevens finds traditional mid-term jitters among MPs turning into deep anxiety

THE Conservative MP kicking his heels in the lobby of the House of *Commons did not hesitate for* an instant when asked what Mr John Major should set as his main priority in next month's Budget.

There could only be one priority – winning the next general election.

If the Chancellor has *little* option but to unveil on March 20 what by recent standards looks like a "boring Budget," his colleagues at Westminster *believe that,* in political terms, it will be the most important for nearly a decade.

The sombre economic backdrop leaves no room for the tax *cuts* and *the theatrical flourishes* so beloved of Mr Nigel Lawson, whose acrimonious surprise resignation last October left Mr Major with the *most testing job of his political* career.

With the Labour Party lengthening its lead in the opinion polls by the week, morale among *Conservative* MPs is perhaps at its lowest ebb since the recession in the early 1980s.

Few have yet predicted a *Labour victory at the election* due by mid-1992. For that would require a swing against the government much larger than anything seen in post-war *history.*

However, recognition at least of the possibility that Mrs Margaret Thatcher's overall majority is at risk is no longer confined to the faint-hearted on *the Conservative* benches. "We could just lose," one minister commented in a gloomy whisper this week.

The bitter row over the poll tax, internal disputes over Europe and Hong Kong and a feeling that Mrs Thatcher's *unflinching* approach on *issues* such as sanctions against South Africa threaten international isolation, have all sapped morale.

Labour's progressive shift towards the centre ground of politics occupied for much of the 1980s by the SDP-Liberal Alliance, although derided by *ministers as "cosmetic,"* has dented the once unshakeable confidence that Mr Neil Kinnock was just not "electable."

There are too doubts among Conservatives as to whether the frequently abrasive "conviction" politics which brought the Government such success *during the 1980s will catch the* mood of the new decade.

That has provoked talk of the need for a more "caring Conservatism," with extra *resources for* public services such as health and education; for money to take the mentally disturbed and homeless off the streets of Britain's cities.

Such worries are the stuff of the "mid-term" blues which hit virtually every administration at about the present stage of its legislative programme. What has translated traditional jitters into deep anxiety is the worsening performance of the economy and above all the sharp acceleration in inflation and the accompanying steep rise in mortgage rates.

A reputation for competence in managing the economy is *the Conservatives'* most precious electoral asset. The hangover left by the unsustainable boom in 1988 has tarnished that reputation badly.

The sharp *rise in real, or* inflation-adjusted, incomes fuelled by a combination of tax cuts, low inflation and low interest rates has evaporated. It has been replaced by a squeeze, with borrowing costs now at record levels and high inflation eroding the value of pay awards.

Introduction of the community charge, or poll tax, in England and Wales in April will deepen the misery felt by many voters.

It is up to Mr Major to restore the shine. If he succeeds, his colleagues argue, most other concerns will either fade or be assuaged by judicious increases in public spending.

In spite of the circumstances of his appointment, Mr Major has succeeded in creating con*fidence* that the turn-*around is* possible within the tight time schedule imposed by the electoral cycle. Although he is only *46 Mr Major is regarded as one* of the most skilful politicians at Westminster and regularly tops the lists of likely successors to Mrs Thatcher.

Since October he has managed to ride out a potential storm of speculation against sterling and has blended judicious admissions of past gov*ernment errors* with confidence that the present anti-inflation medicine works.

His political task in the Budget is to produce a series of balancing acts that reassure Tory MPs and voters alike that the present gloom – described only yesterday as "very serious" for the government by Mr Kenneth Baker, the party chairman – will begin to lift by the end of this year.

There is little dissent from the view that getting inflation down is the key. Only if the pace of price rises slows can party managers expect the falls in interest rates – and above all mortgage rates – which they believe are essential to ensure a fourth term in office.

That means that Mr Major will not be criticised for a fiscally neutral *budget*. There *is* little enthusiasm, however, for any move to raise income tax, even by freezing personal allowances rather than increasing them.

Such action, many Conservatives fear, could damage morale seriously. If the focus of Mr Major's judgment must be *the state of the economy* in a year or so, he cannot ignore totally the current acute disquiet among his supporters.

He faces demands to soften the edges of austerity with other popular and relatively inexpensive measures. Tax incentives for workplace nurseries, further encouragement for personal and measures to demonstrate the Government's "green" credentials have all been included on lists handed to Mr Major by hopeful Tories.

Mr Major's first task, however, is to convince Tory MPs and voters alike that a tight grip on the economy this year will allow him to restore the fortunes both of the economy and the Government by 1991.

The first test of whether he has succeeded will come uncomfortably quickly in the Mid-Staffordshire by-election scheduled for March 22, just two days after the Budget.

Anglo-Irish assembly criticised

By Ralph Atkins

A FORMAL assembly of British and Irish parliamentarians starting in London today was dismissed as a "social occasion" yesterday by the leader of Northern Ireland's largest unionist party.

Mr James Molyneaux also confirmed that the Official Unionists would boycott the meetings because of the party's objection to the 1985 Anglo-Irish Agreement.

The Anglo-Irish Inter-Parliamentary body will consist of 50 representatives from Britain and Ireland and is intended to strengthen links between the two parliaments.

The *opening* ceremony today, to be addressed by Sir Geoffrey Howe, deputy Prime Minister, will mark the first time Irish MPs have taken part *in a meeting at Westminster* for more than 70 years.

Speaking on BBC Radio, Mr Molyneaux criticised the body as being "very entertaining, I *suppose, for those members of* Parliament who have time to devote to those kind of social occasions," but said it did not achieve very much. This was attacked as "absolute rubbish" by Mr Peter Temple-Morris, Conservative MP for Leominster and co-chairman of the body. He described the organisation as a "working body" which would have a "unique" role.

Interest rate cuts seen for 1991

By Rachel Johnson

THE GOVERNMENT will maintain a policy of high interest rates for most of the current year, risking recession in order to fight inflation and improve the current account deficit, the London Business School forecasts today.

The *Chancellor* will offer a neutral Budget next month, as he has little scope for policy relaxation. But he will be forced to cut interest rates repeatedly in 1991-2 in order to reach 10 per cent in time for the next general election, the LBS says.

In its latest economic outlook the LBS says that *political* expediency will dictate a cut in interest rates to 14 per cent by the third quarter, although such a move would run counter to sound economic policy. It believes a cut would interrupt progress on inflation and the current account.

"Electoral considerations will be *at least as important* as macro-economic criteria," it predicts.

Sterling will retain its current strength until the base *rate cut at the end of the year,* profiting from the political uncertainty in the two Germanys.

The business school says that *the economy has entered a* growth recession – near stagnation but without an absolute decline in output. It predicts that unemployment will rise to 1.72m by the end of the year and that the core rate of inflation will stay at 6 per cent.

ECONOMIC FORECASTS

	1989	1990	1991	1992	1993
GDP	2.3	1.0	2.6	3.1	2.2
Inflation	7.8	7.2	5.9	4.9	4.9
Consumers' Expenditure†	4.4	1.1	1.6	2.2	1.6
Total Fixed Investment†	5.5	-0.1	4.0	5.2	4.2
Gen Govt Consumption	0.2	0.3	1.1	0.9	0.9
Stockbuilding†‡	3.1	-3.1	-1.0	0.5	1.0
Exports†	5.4	8.5	4.1	3.7	2.6
Imports†	8.5	1.6	3.5	3.1	1.9
Sterling Index*	93.0	88.0	86.0	83.0	83.0
PSDR (£bn,finan years)	9.4	11.3	10.3	10.5	9.8
Current Balance (£bn)	-20.4	-12.8	-13.1	-13.7	-11.8
Adult Unemployment (UK,m)	1.8	1.7	1.8	1.7	1.7

Percentage change unless otherwise shown. † Percentage change in volume. ‡£bn, 1985. *1985=100.

Source: Economic Outlook 1989-1993, February 1990.

But in contrast to the trend of recent years, 1990 will be outstanding for the growth in exports.

Since 1985, domestic demand has driven output, and net exports were negative for four years running. The current account deficit will drop to about £13bn until 1992, or *about 2 per cent of GDP.*

However, the effects of tight monetary policy will be offset by rising real disposable income – which the LBS forecasts to *rise 2 per cent this* year. New borrowing has dropped sharply, and consumption is set to rise only one per cent this year, so the savings ratio should rise slightly, it says.

Against a tighter policy background than it had previously envisaged, output is forecast to grow only 1 per cent this year, and 0.6 per cent if the rebound in oil output is excluded.

However, as policy is relaxed before the election growth will pick up and there will be a strong "rebound" in demand and output.

In 1991-2 manufacturing growth will rise to 4 per cent because of buoyant markets for exports. The private service *sector will bear the brunt of* the long-awaited slowdown in consumer spending.

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Momentum for taxing pollution

By Rachel Johnson

THERE IS no good economic argument for a fiscal tightening in the Budget to give scope for relaxation later, the LBS says. There is, however, a political momentum towards the idea of pricing the environment, or taxing pollution.

The Chancellor should present a neutral Budget in macroeconomic terms and focus on microeconomic tax reforms which might feature a carbon tax, the LBS suggests.

Mr Scott Barrett, a lecturer at LBS, has reached estimates of the taxes needed to achieve a reduction in UK carbon dioxide emissions by 20 per cent by 2025, the target set by the 1988 Toronto conference.

His estimates – a 41 per cent tax on coal, 33 per cent on oil, and 25 per cent on gas – reflect the fact that people will switch to non-taxed or lesser-taxed fuels. The point of the tax would be to make fuel users aware of and make them pay for the damage they are inflicting on the environment.

Mr Barrett argues, however, that a more successful way of *protecting the environment* would be a small carbon tax, intended not so much to reduce emissions as to raise revenues. The money would be used to help protect remaining tropical rain forests, and help pay for fund reforestation.

NEWS IN BRIEF

French link in water venture

NORWEST Holst, the British construction company and Omnium de Traitements et de Valorisation (OTV), the French water company, have launched a joint venture company to be called General Water Processes.

The company will provide services to Britain's recently privatised water industry.

OTV is one of an increasing number of French companies which have sought to break into the British water industry. French water services have been provided by private sector companies for many years.

Timeshare move

WIMPEY Leisure, a subsidiary of the George Wimpey construction group, said it was pulling out of the Timeshare Developers Association following a review of its "relevance *to existing* and potential customers."

It follows the decision by Barratt International Resorts, to pull out of the TDA

SE Topic change

TOPIC, the *Stock Exchange's* news and share price information system is getting a facelift. It is aimed at improving the reliability of the 10-year-old system and *extending* the range of services available on screen to its 15,000 users.

Talisman link

THE International Stock Exchange has taken the first step towards paperless settlement by extending its existing Institutional Net Settlement system. The new version provides electronic links between institutional investors and the exchange's central settlement system, Talisman.

FSA deadline

THE 100 investment firms which still have not gained full authorisation under the Financial Services Act – nearly two years after the act took effect – must make it clear to their *clients from March 1 that* they are not covered by the FSA compensation scheme.

Firms in this position have to-date only had to show on their letterhead that they have "interim authorised" status.

Boost for Eminase

SMITHKLINE Beecham, the Anglo-US pharmaceutical and drugs company, said test data indicated that Eminase, its blood anti-clotting drug, was reducing the mortality rate of heart-attack patients over a longer period.

The final report of the Apsac Intervention Mortality Study Group published in The Lancet found that patients injected with Eminase were 43 per cent less likely to have died 12 months after their heart attacks than patients who had not received the drug.

FRC appointees

THE Department of Trade and Industry is expected today to announce a handful of top appointments to the Financial Reporting Council (FRC), the body which this summer will take over responsibility from the Accounting Standards Committee for the setting of accounting standards in the UK.

Today's ombudsman

David Montgomery, editor of *Today* newspaper, has appointed a former editor of the Sunday Mirror as the paper's ombudsman.

Mr Bob Edwards, who was *also once* deputy chairman of Mirror Group Newspapers, starts his duties today.

Litigation puts Lloyd's reputation at risk

Patrick Cockburn on the effect of legal action and natural disasters on the market

FOR more than a year, dissident members of Lloyd's of London, the insurance market, have waged a campaign in the media and the courts seeking redress for losses suffered in the market, most of which stem from heavy pollution and asbestos claims in the US.

The culmination of this will come this week when 865 members of *Lloyd's* who belonged to syndicate 317/661 in 1982, managed by RHM Outhwaite, serve writs in the largest single legal action in the history of the market. The members, or "names," who lost £304m, allege negligence by Mr Outh*waite and hold responsible for* his actions 81 members' agents who introduced members to the syndicate.

Lloyd's seems to be taking fire from every direction. With 410 underwriting syndicates, each capable of producing a drama or a crisis, the market makes a lot of news. Yesterday a US congressional report accused Lloyd's of not checking up on a Mr Carlos Miro, a Cuban born insurance agent writing phony policies, who used his position as one of 28,386 Lloyd's members as an "advertisement for his respectability."

Many of the cases are extraordinarily complex. However, there is no doubt that the wave of litigation and bad publicity, some of which has nothing to do with asbestos or pollution, is doing significant damage to Lloyd's image.

Earlier in the month in the High Court in London Mr David Becker, a 60-year-old architect and a member of Lloyd's who was described by his counsel as "neither rich nor well," reached a final settlement over losses of £120,000 *he suffered when Oakley* Vaughan (Underwriting) crashed in 1983 – the first such firm to go into receivership in the 302-year history of Lloyd's.

A few days earlier Mrs Lee Shepherd, whose father-in-law had introduced her to Lloyd's in 1979, met some 70 other members of Pulbrook syndicate 90 to see what they could do to stem the losses they are suffering as a result of heavy asbestos and pollution claims in the US. Asbestos claims alone could ultimately cost them $250m (£146m).

Litigants against Outhwaite include Mr John Ritblat, chairman of British Land, Mr Robert Maxwell, chairman of Maxwell Communication, and Mr Patrick Sheehy, chairman of BAT Industries.

The difficulty from the Lloyd's point of view is that publicity is a central aim, rather than a side effect, of much of this legal action. The big cases will take years to come to court and accusations of negligence will be difficult to prove. Therefore the most immediate leverage possessed by *members* is to stir up enough of a row to embarrass Lloyd's into rescuing them by some form of reinsurance lifeboat.

Aggrieved "names" are aided by the memory of past Lloyd's scandals. The executive of Lloyd's *may* protest *that* lifeboats were launched to aid victims of fraud, as in the Sasse or PCW affairs, and are not appropriate for underwriting error, however gross. But the market's record of scandal is bad enough for the media and many Lloyd's members to be suspicious when anything goes wrong. The record includes the Savonita affair in 1974, when cars ostensibly burnt in a shipboard fire were discovered being driven around in Italy, to Alexander Howden in 1982 when the company's new owners found $55m (£32.4m) missing.

It is doubtful if there is enough support in Lloyd's to pay for an effective lifeboat. That would require room not just for Outhwaite and Pulbrook syndicates but for all the syndicates with so-called open years – years when the figures, *usually losses,* are *too* uncertain for accounts to be closed. Sixty-eight syndicates, incorporating 45 per cent of Lloyd's members, have a total of 115 open years outstanding.

None of this has had much effect on the ability of Lloyd's *to insure risks.* Membership was down by 2,570 this year, but capacity was almost unchanged at £10.8bn. Syndicates are now using only some 65 *per cent of their capacity* because of low premiums. The drop in membership is explained partly by this year's increase in the means members must show from £100,000 to £250,000. The tax advantages of being a member of Lloyd's are less attractive than they were 10 years ago, although members still benefit from being able to use *their money* twice: because they retain its use while providing capacity for the market.

In the longer term, however, the real danger for Lloyd's is that the asbestos and pollution claims resulting from US court decisions will turn out not be isolated disasters for insurers and reinsurers – those with whom *insurers lay off* a proportion of their risks. Lloyd's has always depended heavily on the US and is therefore peculiarly vulnerable to changes in the legal and political environment, and almost all such changes during the *1980s* were damaging to the insurance industry.

There is little Lloyd's can do about this. The big UK insurance composites have also had *to ensure substantial reserves* against potential losses. London United Investments' share price *has dropped from 400p* in 1986 to 36p because of fears about its vulnerability to claims in the US.

The second threat to Lloyd's is that it is the riskier end of the insurance business which ends up in London. The trend *is for big companies* to meet more of their insurance needs themselves through captive insurance companies, retention of risk and pooling arrangements. By 1993, 40 per cent of commercial insurance needs may be met outside the commercial market.

That makes the market more vulnerable to a series of disasters. There were few of those in the mid 1980s. But since Piper Alpha in 1988, the worst offshore disaster to hit the insurance industry, there has been *a series of disasters:* Hurricane Hugo, the San Francisco earthquake and explosion at the Philip's petrochemical plant in Texas which cost at least $1.2bn.

The problems of Lloyd's are little different from those facing commercial companies. Both sectors can absorb disasters: the real damage comes when, in spite of heavy losses, insurance and reinsurance rates stubbornly refuse to go up because of overcapacity.

Given that Lloyd's works on three-year accounting, the full effect of 1988 and 1989 will take time to feed through. When it does it will do more damage to Lloyd's than the present wave of litigation.

Costly explosion: Philips petrochemical plant blaze *which* will cost at least $1.2bn

PUERTO RICO – SPRINGBOARD TO THE AMERICAS

BRITISH CORPORATE INVESTMENTS TOP £290 MILLION IN PUERTO RICO

BREAKING GROUND IN PUERTO RICO

ICI Pharmaceuticals PR, Inc. broke ground last December for its £34.9 million ($60 million-US) bulk plant being constructed in Guayama, Puerto Rico. From left to right are: Guayama Mayor Hector Colon; Antonio J. Colorado, then head of the Economic Development Administration and now Secretary of State, and Governor Rafael Hernandez Colon of Puerto Rico; British Ambassador to the US, Sir Antony Acland; and R. B. Bissell and J. M. Michie, respectively, ICIPR's President and Board Chairman.

A growing number of British corporations are discovering Puerto Rico's comprehensive package of business incentives, its unique locational advantages and its favorable position within the US market system.

This represents a remarkable turn-around. Prior to 1985, Puerto Rico constituted *terra incognita* for most UK business interests, except for a few firms with long-time presence on the island. Today, cumulative investment in Puerto Rico by British corporations surpasses £290 million pounds sterling ($500 million-US). Almost half of this investment has been attracted to this highly-industrialized Caribbean manufacturing center since 1985.

Growing investments, both in manufacturing and service operations reflect increased promotional efforts implemented over the past four years by Puerto Rico in the European Community, throughout the Far East, and, of course, in the mainland US.

Working to establish a niche for globalizing business activities, Puerto Rico is effectively stirring the interest of UK corporate leaders as to the advantages of operating subsidiaries in this *sui generis* Commonwealth within the US framework.

Spearheaded by the Economic Development Administration, Puerto Rico's principal agency for investor attraction, initial trade missions led by Governor Rafael Hernandez-Colon introduced Puerto Rico's multiple opportunities for profitability to more than 100 interested British companies during fiscal 1987. Subsequent missions have taken place and more are being planned to maintain promotional impetus.

The message is being received with positive responses. Of the initial corporate contacts made by Puerto Rico in the 12-months ended June 30, 1987, 26 companies visited Puerto Rico for the first time and 14 have established new projects, expanded existing operations, or entered into local contracts with Puerto Rican business entities.

In order to provide overseas investors with a sense of what it is like to do business in Puerto Rico, the Economic Development Administration conducted a series of interviews with executives of a selected number of British corporate subsidiaries on the island. These are reprinted below.

Among the major British corporations that have manufacturing operations in Puerto Rico are four pharmaceutical companies.

ICI PHARMACEUTICALS

ICI Pharmaceuticals PR, Inc. (ICIPR) expects to complete construction and commission its recently announced £34.9 million ($60 million-US) bulk pharmaceuticals plant in the Municipality of Guayama on Puerto Rico's south coast by the second half of 1991, according to J. M. Michie, ICIPR Chairman of the Board.

The island bulk plant is seen by ICI as "a major step forward in our efforts to make Puerto Rico one of our most important manufacturing sites in this part of the world," says Michie.

The Guayama facility, designed by the Puerto Rican architectural firm of Capacete and Martin in conjunction with John Brown Inc., will manufacture the active ingredient for prescription medicines [illegible]

HIGHER PROFITS ATTRACTING MAINLAND US AND FOREIGN FIRMS

[illegible]

SMITHKLINE BEECHAM

[illegible]

THE BOC GROUP PLC

[illegible]

THE BOOTS COMPANY PLC

[illegible]

UNILEVER

[illegible]

HAWKER SIDDELEY GROUP PLC

[illegible]

FIRST OIL INTERNATIONAL LTD.

[illegible]

ABB KENT PLC

[illegible]

TOURISM INVESTMENTS SOAR; SERVICE INDUSTRIES EXPANDING

New investments approaching £1.16 thousand million ($2 billion-US) will expand Puerto Rico's available hotel rooms and tourist industry infrastructure dramatically over the next decade. Projects under construction and announced commitments by US, European and Far Eastern business interests are expected to add 5,000 new units to the island's existing inventory of some 8,000 rooms in three-to-five years.

Investors are responding to favorable tax incentives and other inducements to participate in Puerto Rico's tourist bonanza. In fiscal 1989, ended June 30, more than three million visitors, including close to 800,000 cruise ship passengers, came to the island. For the second consecutive year, tourist expenditures surpassed £581 million ($1 billion-US).

Puerto Rico is the airline and cruise-ship "crossroads of the Caribbean," making San Juan, its historic capital city, a major destination in the region. Contributing to Puerto Rico's tourist boom is Ladbroke Group PLC, which now operates the Caribe Hilton Hotel in capital San Juan and its sister hotel, the Mayaguez Hilton, overlooking the fabled Spanish Main on the western end of the island.

Ladbroke made an outright decision to purchase Hilton International and its world-wide properties and operating contracts as "an investment opportunity," according to Rupert E. Huber, Vice President for the Caribbean and Latin America.

Other British companies taking a role in Puerto Rico's tourism and/or transportation business include the following:

British Airways, which has expanded service from England to Puerto Rico to two weekly flights; Albert Abela Corporation, the world-famous catering organization, which now operates at San Juan's Luis Muñoz Marin International Airport; the Cunard Ltd., the pioneer in San Juan's growing cruise ship business, now linking European charter flights with its Caribbean tours; the Harrison and P&O shipping lines and Lep, a British air cargo organization, and other service and sales businesses.

Meanwhile, long-established and new British companies are handling a substantial volume of insurance business in Puerto Rico either directly or through local agents or affiliated firms. Among these companies are: General Accident, Royal Insurance, Alliance Insurance, Eagle Star, and J. H. Minet, the latter seeking qualification to do insurance adjusting business in Puerto Rico.

ISLAND LEADERS CARRYING PROMOTIONAL MESSAGE TO ENGLAND, GERMANY, ITALY

Governor Rafael Hernandez-Colon, Secretary of State Antonio J. Colorado and Economic Development Administrator Alfredo Salazar, Jr., are scheduled to promote the Commonwealth of Puerto Rico as an investment site for major and medium-sized European companies on a multiple trade mission starting in London at the end of this month.

Their promotional tour will include seminar sessions and one-on-one talks with prominent corporate executives and public officials in England, Germany and Italy.

This mission is part of an on-going series initiated by Governor Rafael Hernandez-Colon and Secretary Colorado, the Harvard University-trained corporate tax expert who directed the Economic Development Administration (EDA) of Puerto Rico over the past five years. Puerto Rico's primary public agency for economic development, EDA is now headed by Administrator Salazar, an experienced international banker.

In addition to promotional tours in England and in Japan, the Governor and Colorado also led numerous development missions to the neighboring islands and nations of the Caribbean Basin in support of both US Federal and Commonwealth government regional development programs.

Under Puerto Rico's policies, assistance provided to Spanish and English-language nations of the Caribbean has already generated over 12,900 direct jobs – 3,600 in Puerto Rico and the others in 11 countries of the region. Approximately £96 million ($165 million-US) in cumulative investments have been disbursed for 75 production-sharing projects linking Puerto Rico with its neighbors. In addition, some £165 million ($284 million-US) has been approved by EDA for other projects under its Caribbean financing arrangements.

Many of Puerto Rico's 2,000 manufacturing operations are establishing labor-intensive "twin-plant" projects in the Caribbean which are benefiting both local economies and corporate profit margins. Caribbean dealings are made easier for Puerto Rico's 3.3 million US citizens because Spanish *and* English are the official languages of the island.

Meanwhile, growing numbers of capital-intensive corporations – paced by the dynamic pharmaceutical segment – are opting for Puerto Rico as their preferred, *risk-free* expansion location. In part, these decisions are based on the fact that products, goods and services move freely between Puerto Rico and the US mainland. No duties, no quotas, no special charges or documentation apply to goods and services moving between the island and mainland centers.

Moreover, discretionary income in the mainland market is estimated at well over £175 thousand million ($300 billion-US). Such income is defined as the amount left after paying taxes and normal household expenses – a powerful incentive for world-class, growth-minded businesses.

Another important factor influencing companies to expand to Puerto Rico is its educated, highly-skilled and trainable labor force. Some US-based firms have declared that they chose to expand to Puerto Rico, in the first place, because of the island's package of tax incentives and other inducements, including available factory space.

But almost all companies surveyed by the Economic Development Administration state that they remain in Puerto Rico because of the loyalty and productivity of the island's labor force.

Puerto Rico's outreach for investors from Europe and Asia is a response to new realities. A favored location for major US corporate expansions for four and a half decades, Puerto Rico realizes that it must seek and compete for private capital beyond the continental United States, just as the US itself and many world economies have had to do.

Manufacturing and distribution "internationalization" is being widely pursued by various corporations and business conglomerates. Competition in the Global Village today requires significant economies of scale and a substantial presence within the tariff walls of customer nations and trading blocs. Moreover, investments within customs jurisdictions contribute to the creation of employment, the enhancement of local buying power, and the generation of goodwill. They also help companies to compete for share-of-market on a world-wide scale.

Puerto Rico's superior transportation and communications infrastructure make it the manufacturing and business "Hub of the Caribbean." It's unique position within the US-framework also makes Puerto Rico a virtual economic springboard for domestic and overseas corporations alike to all the Americas, including the gigantic US and Canadian marketplaces.

This is the message which Puerto Rico's trade mission will explain in detail to interested UK and European Community industrialists and businessmen over the next few weeks.

NEW ADMINISTRATOR IS EXPERIENCED BANKER

Alfredo Salazar, Jr., 48, who took the oath of office in January as Administrator of the Economic Development administration, Puerto Rico's primary agency for industrial promotion, brings 25 years of executive banking experience to his public position.

Prior to returning for his second tour of duty with the Commonwealth Government, Salazar held the position of President & Chief Operating Officer of BanPonce with responsibility for operations of its wholly-owned subsidiary, Banco de Ponce. A diversified holding company, the bank ranks among Puerto Rico's leading commercial institutions with £1.7 thousand million ($3 billion-US) in total assets.

Previously, Salazar held a variety of executive assignments with Chase Manhattan Bank, NA including General Manager in Puerto Rico responsible for the operations of 11 Chase branches with resources of £581 million ($1 billion-US) and General Manager of Chase Argentina with related responsibilities for the bank's Paraguay and Uruguay business interests. As President and CEO of Banco Chase Manhattan, SA in Brazil, the largest Chase subsidiary outside the continental US, Mr. Salazar successfully restructured operations there, resulting in a significant turnaround.

A 1963 Villanova University economics graduate, Salazar's first assignments in private banking included management positions in San Juan and New York with Banco Popular, the dominant commercial bank of Puerto Rico.

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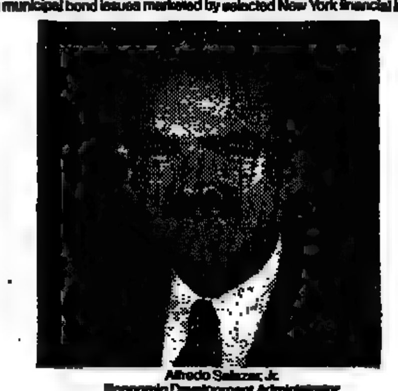


Alfredo Salazar, Jr.
Economic Development Administrator
Commonwealth of Puerto Rico

Mobile communications

How Motorola plans to cut off its competitors

Hugo Dixon explains how the American manufacturer is drawing on expertise from different divisions as part of an attempt to increase its pioneering lead in cellular telephones

Almost all the attention in the current worldwide craze over mobile communications has been directed at service companies such as the UK's Racal Telecommunications and the US's McCaw Cellular Communications. But the single group which stands to gain most out of the mobile revolution is not a service company at all, but a manufacturer – Motorola.

The US electronics group pioneered the world market for mobile communications equipment and still dominates it. It has supplied 31 per cent of the network infrastructure used by cellular service companies around the world: switches, software and radio transmitters. It has also made about a quarter of the handsets used by customers.

Motorola's general systems division, which is mainly made up of its cellular businesses, had sales of $1.8bn in 1989 – a 73 per cent increase on the previous year. Operating profits shot up an extraordinary 218 per cent to $340m. Although the division accounts for only 20 per cent of group sales, it has already overtaken semiconductors and radio communications – Motorola's two previous mainstays.

The division's success has been built on its commitment to invest huge sums in research and development, aggressive worldwide marketing and attention to manufacturing quality.

A hallmark of its competitive strategy has also been its determination to pursue mercilessly through the courts or in the corridors of power any rivals that it thinks are stealing its patents or dumping products at below cost.

The mobile market is still in its infancy. "I would be surprised if it didn't grow by 30-40 per cent compound over the next ten years," says George Fisher, Motorola's new chairman. "That is in dollars. Unit volumes would grow even faster."

If the company can defend its global market share against all comers – notably the Japanese – over the next decade, it will not just be sitting on a goldmine. It will also be accomplishing a competitive feat which most other western industrial pioneers have signally failed to achieve.

But Motorola does not merely want to keep its market share; it intends to increase it. "I believe it is our birthright. We ought to have 100 per cent," says Bernard Smedley, who is in charge of the group's cellular infrastructure operations. Fisher agrees. "We have built up a core competence that is so far in excess of anybody else that we would be very difficult to dislodge... We happen to be in the right business at the right time. Given legitimate competition, we are not going to be chucked out of this."

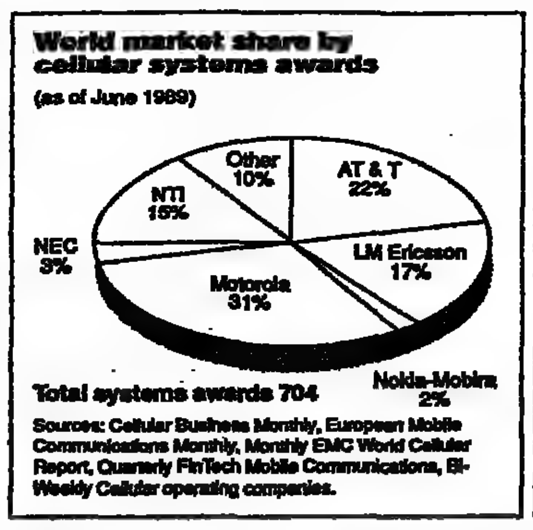
All this may sound boastful. It may even sound complacent, given Motorola's experience in the 1970s and 1980s of being driven first out of television manufacturing and then out of the memory chip market by Japanese competitors.

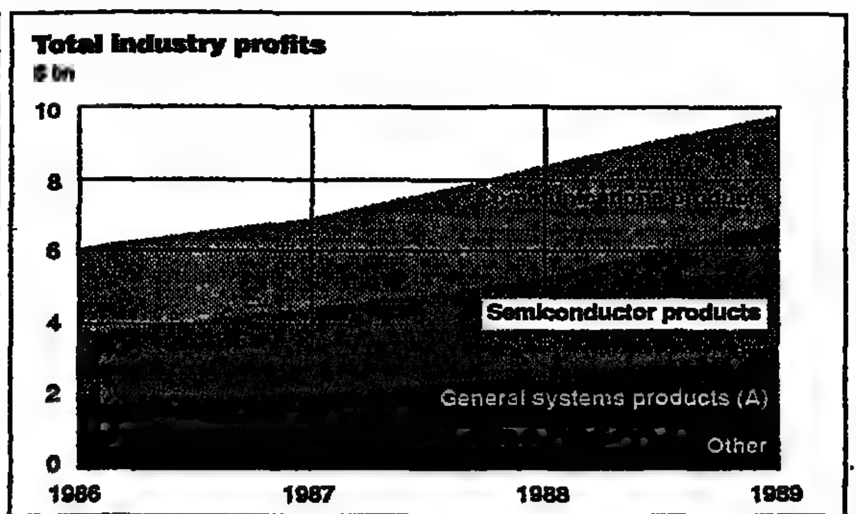
But, says Smedley: "That was the old days. That was before we learnt what the ball game was. You are now looking at a global organisation."

The key to Motorola's success in mobile communications has been its sharp focus on the market. It was one of the first companies to perceive the importance of technology – together with American Telephone & Telegraph it was jointly responsible for inventing cellular technology in the early 1970s, and has invested $400m in research and development since then.

AT&T supplied most of the infrastructure to the Bell operating companies which, at the time cellular started in the early 1980s, were its subsidiaries. The ease with which it could make sales led to complacency, and the fact that AT&T was a vast organisation with many conflicting priorities led it to take its eye off the ball.

Motorola, on the other hand, had to work hard to win orders. The fruits of this more aggressive approach became apparent last year, when it persuaded Pacific Telesis, the most successful of the Baby Bells in the cellular market, to rip out AT&T equipment and replace it with Motorola infrastructure.





Motorola also perceived the need to compete on a global basis in order to spread across as many markets as possible its massive R&D spending. AT&T, on the other hand, was content to supply the domestic market. Tom Powers, head of AT&T's mobile operations, admits this was a mistake. "We are still learning the rules of the game. We are just not yet in the position to spot the opportunities. We may yet regret that." However, he thinks it is not too late to catch up: "I don't feel the ship has already left the dock and that's the only sailing."

Canada's Northern Telecom made a similar mistake of failing to go global, leaving Sweden's LM Ericsson as the only other player competing worldwide in the infrastructure side of the market – albeit with a particular strength in Western Europe.

However, Motorola has recently been building up its presence in Europe, winning four orders to supply testing equipment for the new pan-European cellular service. One covers Sweden, Ericsson's back yard.

The US group has a further advantage in being the only company to be a major player in both the infrastructure and handset sides of the market. Its main rivals in making cellular handsets are the big Japanese electronics groups such as NEC, Matsushita and Toshiba. But the fact that they are barely involved in the infrastructure side means that Motorola always has an edge over them in knowing at an earlier stage where the technology is heading.

On the other hand, Ericsson is aiming to make up lost ground in the handset market via a joint venture with General Electric of the US. It is too early to know how much success it will have.

If the company can defend its global market share against all comers it will be accomplishing a competitive feat which most other western industrial pioneers have signally failed to achieve

Motorola's two other main divisions – radio communications and semiconductors – have been valuable in providing a base for developing the group's expertise in mobile telephony.

The cellular division originally grew out of the radio communications division; there is thus a considerable overlap in technology. Motorola has also transferred engineers from the radio division to work in its cellular operations – given the worldwide shortage of radio communications experts, this is a great advantage. Its expertise in semiconductors has allowed the cellular division to design products that are smaller and lighter than their rivals'.

The division has also gained from a commitment from the top to invest whatever sums of money are needed to make a success out of the new market. "I put my money where my mouth is," says Fisher, who was a researcher at AT&T's Bell Labs working on mobile communications before he joined Motorola 13 years ago.

Similar commitment is apparent right through the organisation – evidence of Motorola's distinctive corporate culture. Fisher defines this as "a fierce desire and sense of winning. We don't like to lose."

An example of how the group's technical expertise and sharp focus led to a competitive advantage is its development of the Microtac, a pocket-sized cellular handset which is still the smallest in the world more than a year after it was launched.

Under its original plan, Motorola would not have produced a handset as small as the Microtac until 1993, says Robert Weisshappel, who was responsible for the project. However, it decided to rush through the development in order to extend its lead over the competition.

This involved harnessing the skills of engineers in other parts of the group who were working on semiconductors, ceramic filters and so forth. "We were able to rally the whole company," says Weisshappel.

These strengths alone, however, might not be enough to inspire confidence in Motorola's prospects to retain its lead in the field of mobile communications were it not for the fact that the company has learnt three important lessons from its earlier tangles with the Japanese.

The first lesson is to give priority to improving poor quality manufacturing. "Whereas ten years ago there was a gap [between Motorola and the leading Japanese companies], today that gap is closed with respect to most companies. In some cases, Motorola is ahead of our best competitors," says Fisher.

The group's quality goals are expressed by a desire to reduce defects to the equivalent of one in every 300,000 operations. Motorola received recognition for its success in moving towards this goal when the US Government gave it the first Malcolm Baldridge National Quality Award in 1988.

In its quality drive, Motorola has adopted many of the techniques that have been made famous by Japanese manufacturers: making design and manufacturing engineers work together so that new products are designed with manufacturing constraints in mind; taking a pro-active approach to improving quality on the production line instead of waiting for things to go wrong and then trying to find out why; and educating component suppliers to carry out their own quality controls.

An even more important approach has been to communicate to employees and managers in a simple and effective way what the goals of any particular project are. "We are providing them with a vision of why we need to do it and with the tools to do it," says Rick Chandler, director of manufacturing for cellular infrastructure.

The effect of this programme has been to cut errors and manufacturing times dramatically. It takes less than an hour to manufacture a Microtac, while it would have taken two weeks using the old manufacturing techniques. And Chandler says he can deliver a radio base station to a customer a week after it is ordered. It would have taken 12 weeks three years ago.

The second lesson is that, in order to compete globally, huge efforts are sometimes needed to prise markets open.

This explains why Motorola last year harnessed the US Government's energies to help it force open Japan's cellular market in what became a bitter trade dispute.

The group is now supplying cellular infrastructure to one of the two private companies competing with Nippon Telegraph and Telephone and Smedley says he would be amazed if Motorola did not win the other private company's business. The group also hopes that even NTT will choose it to supply base stations.

It also explains why Motorola has been so aggressive in bringing anti-dumping actions against Japanese manufacturers for selling cellular handsets in the US and Europe at lower prices than they were charging at home. Both actions were settled after the Japanese companies agreed to set up local manufacturing plants.

"We cannot allow other companies to have profit sanctuaries," says Fisher.

The third lesson has been the need to go to considerable lengths to protect its technology. In 1986 and 1987, Motorola took several Japanese companies to court for violating its patents on car phones. In the past year, it has been pursuing its rivals, again predominantly Japanese but also Finland's Nokia, for infringing its patents on the more sophisticated portable phones.

Rick Paggeot, who is in charge of the handset business, refuses to put a figure on the royalties Motorola is receiving from its competitors except to say they are "substantial". Moreover, he warns that Motorola will be just as aggressive in future: "The guy who comes out with a Microtac in the next 24 months that violates our patents will wind up in court."

Motorola has taken a similar line in defending its intellectual property rights on the infrastructure side. When the pan-European cellular system was being developed, Europe's phone operators suggested that all manufacturers exchange their patents with each other for free. Motorola refused, saying that other manufacturers should pay for using its technology.

"Our shareholders are owed a return on these investments that we've been making over the years. What we have in Europe is a clash with the free enterprise system. The operators' mindset is incredible," declares Smedley. "The problem is you have haves and have-nots. The haves are not equal and the have-nots have not invested."

All this means that Motorola is better placed than most other western manufacturers have been to maintain its early lead in an exciting new industry. In such a fast-changing high technology market, all sorts of unexpected developments could throw it off-course. But if Motorola succeeds, there will be plenty to learn from its experience.

CONSTRUCTION CONTRACTS

Crossing the River Lea

NORWEST HOLST CONSTRUCTION has been awarded new work valued at over £50m. The largest contract is the £25.6m Lower Lea Crossing project for the London Docklands Development Corporation. The 102 week scheme will entail the construction of a four span composite/steel bridge on five bored piled supports over the River Lea.

The scheme includes three additional structures - two steel jack-in bridges and an in situ concrete bridge - to accommodate a one kilometre long section of roadway, which will link Lea Crossing with Leamouth Road and Silvertown Way.

The contract also includes the partial demolition of a viaduct and the construction of two single carriageway slip roads. Associated fencing, walls and drainage together with street and footpath lighting will be provided for the crossing.

On a site adjacent to junction 24 of the M1, Norwest Holst is constructing a four-storey Hilton National Hotel for Ladbroke Hotels. Work on the £8.2m contract will involve constructing a 153 bedroom hotel, which will be situated within two miles of the East Midlands Airport, and an adjoining one and two-storey block housing a leisure club, function rooms, restaurant, bars and a reception area.

Working for sister company Norwest Holst Capital Developments, the company is undertaking the construction of a £3m 90,000 sq ft industrial/warehouse development at Wickford Business Park.

Guildford retailing facilities

A development at Ladymead, Guildford, which will be occupied by some of the leading names in retailing, is to be built by LOVELL CONSTRUCTION under a £7.2m design-and-build contract for Arundell House Securities.

Retail units for Sainsbury's Homebase, Queensway, Allied Carpets and Halfords will be built on an 11 acre greenfield site which forms part of the Ladymead Retail Park on the outskirts of Guildford.

The four single-storey units will have structural steel portal frames on piled reinforced concrete foundations. External work will include provision of car parking, service areas and estate roads.

Treatment plant

A £5m effluent treatment plant for Glaxochem of Ulverston, Cumbria, is to be designed and erected by SIMON-HARTLEY of Carlisle, a member of the Simon Group. The plant will treat a waste stream arising from the production of antibiotics. The stream, which is principally water, contains non-toxic materials, some of which are derived from the natural fermentation processes. The plant is part of a £45m development at Glaxochem's 85 acre site, due for completion in mid-1991.

Offices project

CRENDON STRUCTURES has won contracts totalling £4.5m for the supply and erection of precast concrete frames on 13 blocks and two underground car parks, forming the Waterfront office project, at Richardson Developments' Merry Hill complex in the West Midlands.

Modernising Mansion House station

SIR ROBERT McALPINE AND SONS has been awarded a £13m contract by MEPC Developments for the construction of a six-storey triangular shaped office/retail building with basement and sub-basement in the City of London.

The development, which is being carried out jointly with London Underground, is located on a 700 sq metres site at the junction of Queen Victoria Street and Cannon Street and includes Mansion House Underground station, which will be closed for part of the contract period.

The groundworks involve excavation for the two basement levels which require extensive earthwork support comprising underpinning, H-pile skin wall construction with flying and raking props.

Construction of the triangular shaped building, with a total gross floor area of 5,800 sq metres, will be of in situ reinforced concrete frame on concrete raft foundations with the formation of reinforced concrete waterproof retaining walls to sub-basement and basement levels. The roof structure includes in situ reinforced concrete mansards with a steel framework to support the plantroom mansard.

Part of the basement and ground floor and all of the upper five floors will be fitted out to provide 4,000 sq metres of office accommodation. The remainder of the basement and ground floor will be completed to "shell only" for four retail units at ground level and at basement level, the new London Underground ticket office, with associated plant and storage areas located in the sub-basement. The building also incorporates a new Mansion House station entrance area and staircase and a new pedestrian subway access staircase. Work includes air conditioning and heating.

£11.3m leisure complex for Colchester

LAING EASTERN has won the £11.3m contract to build a leisure pool in Colchester. The contract, awarded by Colchester Borough Council, begins in March and is scheduled for completion in August 1991. The pool will be built on two levels with twin flumes, pool and beach plus external rapids tide.

The contract also includes a feature believed to be new to the UK, a spa sauna world complete with saunas which will be set at different temperatures with a range of fragrances.

Steam rooms and solaria will also be provided together with a hot spa pool and thermal hydro massage pool, which will have therapeutic water and needle jets.

The contract also includes a multi-purpose hall suitable for sport and the arts and alterations to the existing conventional pool to create a 25 metres national short course competition pool.

£35m orders won by Lilley companies

LILLEY CONSTRUCTION has been awarded contracts worth £35m. Commissions, valued at £20.8m, were received by Eden Construction, the group's north of England operation. They include a £14.1m contract to design and build an oxide fuel complex for British Nuclear Fuels in Preston and a £2.2m contract to undertake reconstruction works of the southbound carriageway of the M6 motorway.

Lilley Construction's £8.4m contribution includes a £1m contract on the Broomielaw complex in Glasgow, while Lilley Developments has been awarded a £2.2m order for 29 industrial units in Milton Keynes.

MDW, the Glasgow-based company, has been awarded a £1.5m retail development project in Glasgow. Robison and Davidson, Dumfries, has received work totalling £500,000, Standen, Nottingham, has won contracts worth £1.3m, and Henry Jones has received a batch of orders worth £300,000.

LEGAL COLUMN

Finance markets buck trend away from self-regulation

By Martin Piers and Barry Donnelly

"A LAW unto themselves" is a description of City institutions and their activities often heard in corporate circles. But it is also said that regulations such as those of the Financial Services Act of 1986 and the strict new rules introduced by the Lloyd's insurance market appear to herald an era which will witness the curbing of self-regulation for these institutions.

Insolvency practitioners and lawyers disagree with this. Part VII of the Companies Act of 1989 seeks to ensure the integrity of financial markets by allowing them to deal with any insolvency on the part of a member institution – in the first instance anyway – outside the general law of insolvency.

The Insolvency Act of 1986 still applies to commercial entities other than financial markets and to individuals. So why the special case for such institutions, and is it justified?

In effect the new provisions will overturn the existing general law as laid down in the 1975 case of British Eagle International Airlines v Compagnie Nationale Air France. In that case the House of Lords decided by a bare 3-2 majority that it was contrary to public policy to permit the City – through its complex financial markets – to contract out of the general law and apply its own specific market regulations in the event of the default of one of its members.

The new provisions relate to contracts entered into on what the act defines as a "recognised investment exchange" (such as the Stock Exchange, for example) and a "recognised clearing house" (such as the International Commodities Clearing House). These contracts are referred to under the act as "market contracts." The act provides that if the recognised investment exchange or clearing house declares a company to be in liquidation, receivership or administration, or a bankrupt individual to be a defaulter, the rules of that exchange or clearing house will take precedence over the general law of insolvency regarding the settlement of any market contracts, closing out and default, as well as the specific terms of the actual market contracts concerned.

Parliament has thus overturned by statute the House of Lords' ruling in British Eagle in this respect: a mini-liquidation of the defaulter's bargains (referred to under the act as "default proceedings") will take place before the provisions of the Insolvency Act 1986 will be applied.

The act amends the Financial Services Act 1986 so as to oblige recognised investment exchanges and clearing houses to have default rules dealing with the insolvency of any of their members. A liquidator, administrative receiver, administrator, or trustee in bankruptcy (office-holders) is prohibited from exercising his powers in such a way as to frustrate the default proceedings.

Indeed, the act imposes onerous obligations on any person who has control over the defaulter's assets to provide assistance to a recognised investment exchange or clearing house for the purposes of the default proceedings. This provision is extended to include anyone who has control over any documents of or relating to the defaulter. These obligations are analagous to those imposed on persons in order to assist office-holders themselves under sections 234-237 of the Insolvency Act 1986.

Nevertheless, in spite of the precedence of the default proceedings, the office-holder may take steps to protect the position in so far as the subsequent liquidation, receivership, administration or bankruptcy is concerned.

If the court is satisfied on an application by an office-holder, that a party to a market contract with a defaulter intends to dissipate or apply his assets to prevent the office-holder recovering sums which may be due on completion of the default proceedings, it may make an appropriate order restraining such action.

Until completion of default proceedings the claims and liabilities of the defaulter cannot be taken into account in any liquidation

Until completion of the default proceedings, the claims and liabilities of the defaulter cannot be taken into account in any liquidation, receivership, administration or bankruptcy. When such proceedings have been completed the relevant exchange or clearing house must provide a report to the Secretary of State which will include a statement of the amounts due to, or from, the defaulter under the market contracts concerned.

Only then can such amounts be set off or proved in any general insolvency. Until that point any liquidator or trustee in bankruptcy cannot declare or pay dividends unless he or she retains what he or she reasonably considers to be an adequate reserve to meet unsatisfied liabilities which may arise out of the default proceedings.

In certain circumstances, when the default proceedings are completed and a net sum is determined, office-holders may claw back money from a creditor of a defaulting member, for example, where the creditor had notice of a winding-up petition having already been presented at the time of entering into the market contract with the defaulter.

Other provisions of substantial significance concern new rules relating to what the act defines as "market charges." These are charges (whether fixed or floating) granted in favour of a recognised investment exchange or clearing house for the purpose of securing debts or liabilities arising in connection with the settlement of market contracts or the ensuring of the performance of such contracts.

Again, the general law of insolvency applies subject to the relevant provisions of the act which permit the exchange or clearing house concerned to enforce its security in precedence to any claim by any third party.

Even what had been considered to be the all-encompassing freezing effect of the presentation of a petition for an administration order is overridden by the new provisions.

Any administrator appointed is denied the power to deal with property which is subject to a market charge, whilst the restriction on the right to enforce security while a petition for an administration order is pending or an administrator is in office, does not apply to the exchange or clearing house. In addition, no legal proceedings against such property are to be permitted without the consent of the relevant exchange or clearing house, or the leave of the court.

Anyone dealing with firms and corporations which are members of recognised exchanges or clearing houses should now review their contractual arrangements, and in particular should take cognisance of the market charges provisions which could have very serious consequences in relation to any security which they may hold.

The financial markets appear to have got their own way once again, and it will be interesting to note the approach of the courts in future cases involving the new provisions.

So what is the answer to the question posed at the outset? Why the special case? More elaborate investor protection must be the answer. On the other hand, the cynic may conclude that this is yet another example of the ever more complex workings of the City which simply serves to benefit, in particular, the professionals serving such markets.

Martin Piers is a partner in, and Barry Donnelly a barrister with, City solicitors Gouldens

DIARY DATES

PARLIAMENTARY

Today

Commons: Landlord and Tenant (Licensed Premises) Bill, remaining stages.

Motions on Industrial Training Orders.

Opposed private business after 7 p.m.

Lords: Pakistan Bill, third reading.

Abortion (Amendment) Bill, report.

Coal Industry Bill, committee.

Associated British Ports (No. 2) Bill, second reading.

Select committee: Public Accounts: subject, sale of British Steel. Witness: Sir Peter Gregson, Department of Trade and Industry. (Room 16, 4.30 p.m.)

Tomorrow

Commons: Criminal Justice (International Co-operation) Bill, second reading.

Motion on the annual report of the European Court of Auditors and related action against Fraud.

Opposed private business after 7 p.m.

Lords: Greenwich Hospital Bill, third reading.

Education (Student Loans) Bill, second reading.

Committee on private bill: King's Cross Railways Bill. (Grand Committee Room, Westminster Hall, 10.30 a.m.)

Wednesday

Commons: Debate on the Royal Air Force.

Lords: Debate on Government policy for higher education.

Debate on "The advantages to the arts and sports of a nationwide lottery."

Question to Government on plans to help planning authorities protect areas worthy of conservation.

Select committees: Defence: subjects, the Trident programme and the Atomic Weapons Establishment. Witnesses: Ministry of Defence officials. (Room 16, 10.30 a.m.)

Environment: subject, beach pollution. Witnesses: Acer Group, Consultants in Environmental Sciences and Dr A. Downing. (Room 21, 10.30 a.m.)

Parliamentary Commissioner for Administration: subject, Northern Ireland reports for 1988. Witness: Dr M.N. Hayes, Parliamentary Commissioner for Administration in Ulster. (Room 19, 10.45 a.m.)

Trade and Industry: subject, *British Aerospace and Rover* Group. Witnesses: British Aerospace representatives. (Room 15, 10.45 a.m.)

Energy: subject, cost of nuclear power. Witnesses: Kleinwort Benson, Lazard Brothers and UBS Phillips and Drew. (Room 8, 11 a.m.)

Home Affairs: subject, Crown Prosecution Service. Witnesses: the Justices' Clerks Society and the Magistrates Association. (Room 15, 4.15 p.m.)

Public Accounts: subject, restructuring and finances of universities. Witness: Mr J. Caines of the Department of Education, and Sir Peter Swinnerton-Dyer of the Universities Funding Council. (Room 8, 4.15 p.m.)

Social Services: subject, community care. Witnesses: Association of Social Services Directors and Institute of Health Service Management. (Room 21, 4.15 p.m.)

Procedure: subject, working of the select committee system. Witnesses: Mr Hector Mackenzie of the *Confederation of Health Service Employees*, Mr Jonathan Porritt of Friends of the Earth, National Association for the Care and Resettlement of Offenders and the Confederation of British Industry. (Room 6, 4.30 p.m.)

Treasury and Civil Service - *subject, Civil Service pay and* conditions. Witnesses: Association of First Division Civil Servants. (Room 8, 4.30 p.m.)

Joint Committee on Consolidation Bills: subject, town and country planning. Witnesses: Mrs Maggie Leakes and Miss J. A. Cochrane. (Room 4, 4.30 p.m.)

Committees on Private Bills: (unopposed) Birmingham City Council Bill and Greater Manchester Light Rapid Transit System Bill. (Room 9, 4 p.m.) (opposed) King's Cross Railways Bill. (Grand Committee Room, Westminster Hall, 10.30 a.m.)

Thursday

Commons: Debate on Welsh affairs.

Lords: Contracts Applicable Law Bill, report.

Courts and Legal Services Bill, report.

Gaming (Amendment) Bill, committee.

Select committees: Foreign Affairs: subject, Unesco. Witness: Professor Federico Mayor. (Room 15, 10.30 a.m.)

European Legislation: subject, EC Commission programme for 1990. Witness: Mr Francis Maude MP. (Room 15, 4.30 p.m.)

Committee on a private bill: King's Cross Railways Bill. (Grand Committee Room, Westminster Hall, 10.30 a.m.)

Friday

Commons: Private Members' Bills.

FINANCIAL

TODAY

COMPANY MEETINGS-
Dewhurst Electrical, 68 Queen Square, Bristol, 12.00
Kleen-E-Ze Hldgs., Martins Road, Hanham, Bristol, 10.00
Parkway, Security Pacific House, 4 Broadgate, E.C., 10.00
Whatway, The Brewery, Chiswell Street, E.C., 11.30
BOARD MEETINGS-
Finals:
Akzo
Appleyard
Caldwell Invs.
Chieftain
Conroy Pet. & Natural Res.
Cooper (Alan)
International Colour Management
OCE (UK)
Vickers
Williams Hldgs.
Interims:
Alpha Estates
Isotron
DIVIDEND & INTEREST PAYMENTS-
Abbey National Building Society 9¾% Nts 1994 4⅞pc
Argyll 2.45p
Bank of Nova Scotia Flg Rate Sub Cap Debs 2085 $468.23
Bulmer (H.P.) 2.88p
Douglas (Robert M.) 5p
Horne (Robert) 5p
Do. NV "A" 5p
Lloyds Eurofinance NV Gtd Flg Rate Nts 1998 £196.37
M. & G. Dual Trust Inc Shs 26.6p
Morgan (J.P.) Int Finance NV Gtd Flg Rate Nts 1997 $226.64
National Home Loans 8½% Bds 8¼pc
Shelton (Martin) 0.75p
Sommerville (William) 1p
Southern Business 4.96p
TSB Channel Islands 2.86p
Treasury 10% Stk 2001 5pc

TOMORROW

COMPANY MEETINGS-
Williams (John), Park Hotel, Cardiff, 12.00
Kunick, Park Lane Hotel, Piccadilly, 11.00
BOARD MEETINGS-
Finals:
Baltic
Capital & Counties
Continental & Industrial Trust
Grahams Rintoul Inv. Trust
SKF
STC
Sedgwick
Unilever
Unilever NV
Updown Inv.
Interims:
Ewart
McAlpine (Alfred)
Murray Income Trust
SEET
DIVIDEND & INTEREST PAYMENTS-
Bank of Montreal 53cts
City of Oxford Investment Trust 0.2375p
Fairbriar 1.25p
General Motors Acceptance 8⅝% Nts 4⁵⁄₁₆pc
Investment Co. 0.375p
Treasury 9¾% 2001 4⅞pc
VPI 0.5p

WEDNESDAY FEBRUARY 28

COMPANY MEETINGS-
Chrysalis, Westbury Hotel, W., 10.30
City Site Estates, Forum Hotel, Glasgow, 11.30
First National Finance, Monkwell Square, E.C., 3.00
Holmes & Marchant, Brands House, Kingshill Road, Buckinghamshire, 12.00
RCO Holdings, 6 St. Bride Street, E.C., 3.00
UTC, Howard Hotel, Temple Place, W.C., 11.00
BOARD MEETINGS-
Finals:
AMS Industrials
BWD Securities
Barclays Bank
British Kidney Patient Inv. Trust
Cadbury Schweppes
Commercial Union Assurance
First Scottish American Trust
Foreign & Colonial Inv. Trust
General Accident
Goodwin
Grosvenor Dev. Capital
LASMO
Porvair
Royal Insurance
Stat-Plus
TR City of London Trust
Takare
Tozer, Kemsley & Millbourn
Interims:
Eleco Hldgs
Joe Hldgs
Manganese Bronze
Sheldon Jones
Usher (Frank)
DIVIDEND & INTEREST PAYMENTS-
Anglia Secure Homes 0.75p
Archer (A.J.) 5p
Automated Security 6% Cnv Red Prf 3.0p
Barkers Investment Trust 0.65p
Blackwood Hodge 9% Red Prf 4.5p
Bradford & Bingley Building Society Flg Rate Nts 1994 £377.57
Burmah Oil 8½% Uns Ln 4¼pc
Cable & Wireless 3.1p
Cater Allen Equity Growth 28p
Cater Allen Gilt & Futures £40
Cater Allen Gilt Income 30p
Chase Manhattan Flg Rate Sub Nts 1997 $217.19
Cigna Overseas Finance NV 13% Uns Ln 2006 6½pc
Chubb-Pens International 6½% Deb 85/90 3¼pc
Do. 7½% 2nd Deb 86/91 3¾pc
Commerzbank Overseas Finance NV 10¾% Nts 1994 5⅜pc
Creditanstalt Bankverein Sub Flg Rate Nts 1996 $227.82
Dewhurst Electrical 3.66p
Derby Trust 8.5109p
Dowty 7% Uns Ln 86/91 3½pc
Ecclesiastical Insurance 13% Deb 2016 6½pc
Erskine House 2.3p
Excalibur 11.5% Prf 5.75p
Glasgow Income Trust 1.15p
Gold Fields Property 24cts
Graham Wood 3p
Halifax Building Society Flg Rate Ln Nts 1995 £59.05
Hambro Eurobond & Money Market Fund Flg Red Prf 21p
Do. Flg Red Prf (Stlg Eurobond) 24.1p
Do. Flg Red Prf (Yen Eurobond) Y49.1
Do. Flg Red Prf ($C Eurobond) $C1.395
Do. Flg Red Prf (Cont'l Eurobond) DM 1.489
Do. Flg Red Prf (Stlg Money Market) 71p
Do. Flg Red Prf (US$ Money Market) $0.646
Do. Flg Red Prf (Cont'l Euro Money Mkt) DM1.75
Hanover Druce 6.75% Cnv Red Prf 3.375p
Hill Samuel Finance BV Flg Rate Nts 1996 $461.93
Jersey Electricity 10p
Kleinwort Benson Gilt Fund 86.58p
Kynoch (G. & G.) 7½% Red Prf 3.75p
Lloyds Bank Prim Cap Und Flg Rate Nts $457.55
Do. Prim Cap Und Flg Rate Nts $515.62
London & St. Lawrence 5% Prf 1.75p
London & Strathclyde Trust 5% Prf Stk 1.75p
M. & G. Gold & General Fund 0.2p
Marubeni International Finance 3.7dp
Morgan Grenfell Und Prim Cap FRN $479.74
Murray International Trust 2p
National Australia Bank Flg Rate Nts 1995 $328.47
National Westminster Bank Prim Cap $314.06
Neotronics Technology 1.2p
Neste Oy Flg Rate Nts 1994 $495.75
New Wits 17cts
Next 7% 1st Mtg Deb 86/91 3½pc
Do. 7¾% 1st Mtg Deb 87/92 3⅞pc
Olim Convertible Trust 5p
Ossory Estates 12.5% Bds 1995 £16241.15
Panama (Rep of) Flg Rate Ser Nts 1990 $75.45
Parkland Textile 4.2% Prf 2.1p
Prowting 14.5% Prf 7.25p
RPH 8% Deb Stk 92/96 4pc
Do. 4½% Uns Ln 2004/09 2¼pc
Do. 7½% Uns Ln 87/92 3¾pc
Do. 9% Uns Ln 99/2004 4½pc
Second Market Inv. Co. 2½% Cnv Uns Ln 1994 1¼pc
Security Archives 2.5p
Security Services 4½% Prf 1.575p
Symonds Engineering 0.45p
TR City of London Trust 1.05p
Do. Pfd Ord Stk 7p
Do. 6% 1st Prf 2.1p
Do. 6% 2nd Prf 2.1p
TR Far East Income Trust 7% Deb 97/2002 3½pc
TSB Var Rate Sub Nts £360.63
Temple Bar Investment Trust 6% Cnv Uns Ln 2002 3pc
3i 8⅞% Uns Ln 92/97 4⁷⁄₁₆pc
Tilling (Thomas) 8% Deb 85/90 4pc
Triplevest 7⅝% Deb 87/91 3¹³⁄₁₆pc
Vogelstruisbult Metal 55cts
Waverley Cameron 7.5p Cnv Red Prf 3.75p
Wells Fargo Flg Rate Sub Nts 1992 $65.43
Do. Flg Rate Sub Nts 2000 $65.63
Windsor 0.3p
Zetters 1.75p

THURSDAY MARCH 1

COMPANY MEETINGS-
Shaftesbury, Savoy Hotel, W., 12.00
BOARD MEETINGS-
Finals:
AAF Inv. Corp.
ASW Hldgs.
Freeman
Murray Intl. Trust
Philips Lamps Holding NV
Interims:
Admiral Computing
Macro 4
Polypipe
DIVIDEND & INTEREST PAYMENTS-
AMAX 20cts
Aberdeen (City of) 10.8% Red 2011 5.4pc
American Brands 68cts
BP America 9¾% Gtd Nts 1999 4⅞pc
Barclays Bank Dan Prf Srs A $2.1280cts
Do. Dan Prf Srs B $1.9770cts
Church (Charles) Developments 9.375% Red Prf 4.6875p
Daves Estates 7.75% Cnv Red Prf 3.875p
Electric & General Inv. 9% Deb 4½pc
Fleming Mercantile Inv. 3½% Red Deb 1¾pc
Ford Motor 75cts
Ingersoll-Rand 30cts
International Bank 10% Bds 5pc
Jessups 3.65p
Low & Bonar 6% 1st Prf Stk 2.1p
Do. 6% 2nd Prf 2.1p
Do. 5½% 3rd Prf 1.925p
Lucas Industries 2.275p
M. & G. European Dividend 0.16p
M. & G. General Trust 15.175p
Metropolitan Water 3% B 1.5pc
Morris Ashby 1.7p
Normans 1.1p
Peninsular & Oriental Steam 3½% Deb 1¾pc
Do. 3½% 2nd Deb 1¾pc
Royal Bank of Scotland 4.6p
Sainsbury (J.) 8% Irrd Uns Ln 4pc
Schneiders (S.) 2.1p
Stonehill 5.25p
Tarmac 6¼% Deb 3⅛pc
Do. 6¾% Deb 3⅜pc
Do. 7½% Deb 3¾pc
Tendring Hundred Waterworks 4.9% (Fmly 7%) 1.4p
Do. 4.2% (Fmly 6%) 2.1p
Treasury 14½% Ln 1994 7¼pc
Do. 8¼% Ln 1997 4⅛pc
Unilever 67cts
Union Carbide 25cts
Witan Inv. 8% Deb 4pc

FRIDAY MARCH 2

COMPANY MEETINGS-
Alexanders Holdings, Caledonian Hotel, Princes Street, Edinburgh, 12.00
Cardiff Property, Bradley Court, Park Place, Cardiff, 12.00
Lovell (Y.J.), The Ironmongers Hall, Barbican, E.C., 11.00
Richards PLC, Broadford Works, Maberly Street, Sheffield, 10.00
Thornton (G.W.), Bridge House, Bridge Street, Sheffield, 12.00
BOARD MEETINGS-
Finals:
Hampden Homecare
Interims:
Consolidated Plantations Berhad
Lincat
DIVIDEND & INTEREST PAYMENTS-
Alexanders Hldgs. 1p
Do. "A" (Rst.V) 1p
General Motors 11% Nts 5½pc
Sheafbank Property 0.1p
State Bank of New South Wales 8% Stdl Nts 1994 4pc
Thorn EMI 8.5p
Wace Group 1.25p

SATURDAY MARCH 3

BOARD MEETINGS-
Interims:
Sime Darby Berhad

Trade fairs and exhibitions: UK

Current
Menswear Fair – MABNORTH (01-437 8754) (until February 27)
Harrogate

February 28-March 1
Northern Wine and Spirit Trade Fair (01-637 2400)
G-Mex Centre, Manchester

March 4-6
International Automotive Parts & Accessories Trade Show – AUTOPARTAC (01-308 8585)
Olympia

March 4-7
Skiing Exhibition – SKI GB (0296 41272)
NEC, Birmingham

March 6-8
International Cosmetics Exhibition (0799 26699)
NEC, Birmingham

March 10-April 1
Daily Mail Ideal Home Exhibition (01-2229341)
Earls Court

March 11-13
British Footwear Fair (0799 26699)
NEC, Birmingham

March 13-15
National Welding Exhibition – NORTHWELD (0403 56747)
G-Mex Centre, Manchester

March 17-20
International Cycle and Leisure Fair – CYCLEX (01-390 2211)
Olympia

March 20-22
Semiconductor International Exhibition (01-948 9900)
NEC, Birmingham

Overseas exhibitions

March 6-8
SEMICON/Europa International Electronics Show – SEMI (01-353 8807)
Zurich

March 10-18
International Boat Show – HISWA (01-495 7977)
Amsterdam

March 11-17
International Spring Fair (0375 392222)
Leipzig

March 17-20
International Jewellery Show (01-828 1661)
Hong Kong

March 23-26
International Franchise Exhibition (01-737 1929)
Paris

March 31-April 5
International Hotel and Catering Exhibition – INTERGASTRA (01-236 0911)
Stuttgart

Business and management conferences

February 28-March 1
Financial Times Conferences: Cable television and satellite broadcasting (01-925 2323)
Hotel Inter-Continental, London

March 1
The Conference Board: Anti-trust issues in today's economy (NY 212-759 0900)
Grand Hyatt, New York

March 2
Quorum Training: Cost management–an activity accounting approach (01-388 2044)
London

March 5
Financial Times Conferences: The London Motor Conference–Manufacturing, Components and the Aftermarket (01-925 2323)
Royal Lancaster Hotel, London

March 6
CBI Conferences: The Companies Act 1989 – The impact on British business (01-379 7400)
Centre Point, London

March 7
Hawksmere: Negotiating commercial agreements to comply with EC law (01-824 8257)
The London Hilton

March 8-9
The Watt Committee on Energy: The rational use of energy in urban regeneration (01-379 6675)
Cardiff

March 12-13
CIPFA/Peat Marwick McLintock: The new culture–meeting the strategic challenge (01-895 8823)
The Belfry Hotel, Near Sutton Coldfield

March 13-14
Financial Times Conferences: Competition, Mergers, Acquisitions and Alliances in Europe (01-925 2323)
Hotel Inter-Continental, London

March 14
Institute of Directors: Dealing with skills shortages (01-839 1233)
116 Pall Mall, London

March 19-23
University Consultants (Japan): Coming to terms with Japan (01-323 4383)
Cambridge University

March 20
The Henley Centre: Annual review of social developments and forecasts (01-353 9961)
Cavendish Conference Centre

March 26-27
Financial Times Conferences: World Pharmaceuticals (01-925 2323)
Royal Garden Hotel, London

March 26-27
Financial Conferences: The European water industry (01-925 2323)
Hotel Inter-Continental, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

COMPANY NOTICES

MHANGURA COPPER MINES LIMITED

(Incorporated in Zimbabwe)

INTERIM REPORT

OPERATING RESULTS (Tonnes)	Six months ended 31/12/89	31/12/88	31/12/89	31/12/88
	Ore milled		Recoverable copper	
Mhangura	559 000	577 800	3 550	3 913
Norah	225 530	238 400	1 221	1 311
Total	784 530	816 200	4 771	5 224
Concentrates purchased			2 235	2 558
Smelter production			11 362	10 363
ex new material			8 948	8 181
ex refinery scrap			2 414	2 182
Refined copper produced (M.C.M.)			6 534	7 975
Refined copper produced (Other)			1 881	245
Sales - Copper			6 890	8 108
- Silver (kg)			7 500	7 793
- Gold (kg)			139	111

FINANCIAL RESULTS (Z$000)	(Unaudited)	
Turnover	48 351	50 149
Mining profit	3 188	11 258
Interest (net) sundry income less other expenditure	(2 036)	(2 115)
Net profit	1 152	9 143
Capital expenditure	1 178	2 909
Profit per stock unit (cents)	5.76	30.7

COMMENT

During the period under review ore production decreased by 3.9% whilst recoverable copper decreased by 8.7% compared with the same period last year. The decreases were largely due to reduced availability of LHD machines and breakdowns of major equipment. Strenuous efforts have been made to obtain the necessary foreign currency for the purchase of replacement LHD machines but to date these have met with only limited success.

Although the smelter was shutdown for planned refurbishment in July 1989 and for further essential repairs early in December 1989, the smelter and refinery production increased by 9.6% and 2.4% respectively. The continued toll refining of FOSKOR concentrate material more than offset the decreases in production which would have otherwise been reflected.

Turnover decreased by 3.6% as a result of the lower copper production. A net profit of Z$1.15 million was made compared with the net profit of Z$9.14 million in the previous year and this decline can be attributed to increased working costs the main reason for which was the increasing high cost of maintaining and repairing old machines and equipment.

During the latter half of 1989 the average monthly price of copper fluctuated in the range of Z$5 274 to Z$6 411 but has since declined and the future of the market is uncertain. This factor coupled with the borrowings of the company and the current capital expenditure programme preclude the declaration of a dividend.

By Order of the Board
CFA INVESTMENTS LIMITED
London Secretaries
Per: R.S. Brunt

LONDON 16 February 1990

Registered office: 4th Floor, Batanai Gardens, 57 Stanley Avenue, HARARE
London office: 36 Princes Gate Mews, SW7 2PR.

ARTS

ARCHITECTURE

Paternoster Square: the way ahead

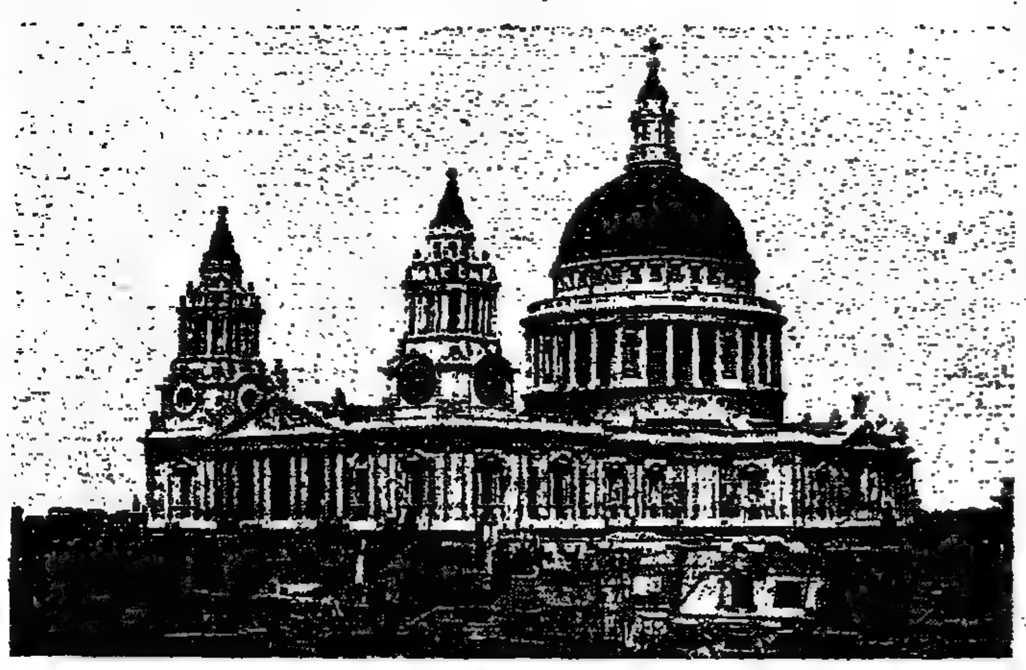
Colin Amery reports on the Prince of Wales' speech in Washington last week

Last week the architectural debate demonstrated that it is a debate *sans frontieres*. The whole discussion on the future of our cities, the role of the capital, the less clear role of the architects, shifted to Washington D.C. Two events brought things into focus.

Firstly, an important and brilliantly conceived exhibition, *Sir Christopher Wren and the Legacy of St.Paul's*, was opened by The Prince of Wales at the Octagon, on New York Avenue in Washington. (This exhibition is sponsored by Cahners Publishing Company, part of Reed International plc, and continues until May 3.) The second event was a speech given by The Prince of Wales to the assembled ranks of the American architectural profession, which took the debate onto a more philosophical plane, linking it to concerns about the whole future of the natural and man made environment.

Washington D.C. is a classical city dominated by a dome. Broad avenues, temples, statues and obelisks give this republican seat of government the air of a new, motorised, Rome. The plans for Washington, drawn up by L'Enfant, were a model of rationality. The founding fathers of the new America saw the value of the adoption of the classical style for their new nation.

The continuity of the tradition was important, but almost more important was the conviction, expressed most strongly by Thomas Jefferson, that architecture had an important role for any state. Jefferson said of architecture that it was his own delight: "It is an enthusiasm of which I am not ashamed, as its object is to improve the taste of my countrymen, to increase their reputation, to reconcile them to the rest of the world, and to procure them its praise." Sentiments that The Prince of Wales would certainly echo. He too spoke in Washington last week, of the need for continuity and stressed again his conviction that it is possible to have both respect for tradition and acknowledge progress and change.



View of St Paul's from the Southwest, c 1874 in the Sir Christopher Wren and the Legacy of St Paul's exhibition which has just opened in Washington

The Prince of Wales made it clear in Washington that he wants to continue the debate about architecture and the quality of life in the built world. He was invited to give the keynote address at an event called "Accent on Architecture," organised as a "celebration of design excellence" by the American Institute of Architects.

I wrote last week about the work of the architect Fay Jones, who was honoured by the presentation of the AIA Gold Medal as part of this celebration. He is exactly the sort of architect that the Prince is likely to respect and admire because his work is carefully attuned to the natural world.

Because of the fortunate coincidence of events, the Prince was able to philosophise in general but focus in particular upon the Paternoster Square project by St Paul's which is included as an adjunct to the Wren exhibition. Paternoster looks set to become the epicentre of the architectural debate. It is appropriate that Paternoster should preoccupy not just the Prince of Wales, but all of us who care remotely about the future of cities and the future of architecture as a force to inspire and console the human spirit.

The Prince puts it succinctly when he says he understands the need to reflect the spirit of the age, "but what alarms me is that the age has no spirit. It is all matter and therefore unable to endure."

The challenge of Paternoster Square is an exciting one. In those few expensive acres will it be possible to achieve what the Prince of Wales calls "a human scaled, coherent and living place of city?" All the characteristics of our time are concentrated on Paternoster. The trilateral ownership of the major part of the site Park Tower Realty of New York, Greycoat Estates of London and Mitsubishi of Japan must be almost unique, but this kind of international financial arrangement is likely to become much more common. It leads to complex architectural arrangements – in this case the British architect John Simpson is joined by Terry Farrell and the American architect Thomas Beeby from Chicago and there may well be others.

The architects will not only have to design the buildings but they will have to find ways of balancing economic "reality" with social and aesthetic considerations. The Prince's words seem to sum up the challenge: "I believe that if somewhere like Paternoster Square is to be both a vindication of tradition and a model for the next century; a number of 20th century developers' instincts will have to be suspended to make room for real thought: the instinct to create as much undifferentiated floor area as possible in the interests of 'flexibility;' the instinct to build quickly, cheaply and thinly; the instinct to go as high as regulations will allow; and the instinct to develop unrestrained by the recognition of human needs."

Does this challenge make it commercially impossible to build the best that is achievable next to St.Paul's? It will be undeniably difficult and there will be a need, not just for the developers to be radical, but for the City of London to be imaginative in a way that has seemed to be beyond them until now. After all, rules are made to be broken and this part of the City must receive special treatment – even to the extent of offering compensatory development sites to the owners if the economic formulas cannot be made to work within the constrictions of the site.

The excellent thing about the royal speech and the Wren exhibition in Washington is that they demonstrate so clearly that all this has happened before. King Charles II and Sir Christopher Wren had to learn the art of compromise with the rebuilding of London after the Great Fire.

Today the willingness to do the best for Paternoster certainly exists in the minds of architects and developers. It is the test case and for the future of the City Paternoster must learn from history and succeed. The will to succeed is there from American, Britain and Japan. With Wren's inspiration this part of the city can live again.

Exchange

VAUDEVILLE THEATRE

I remember a student production of Yuri Trifonov's 1976 Russian hit which emphasised the social grimness and sheer complex mechanics of the Muscovite housing market. Now Michael Frayn puts the title's exchange of flats in perspective: a device that sets us exploring family loyalties, conflicting values, the small betrayals and desertions that daily numb our moral awareness with their expediency and evasiveness.

Tanya McCallin's design sets the literal and metaphorical framework of claustrophobia: a sharply raked stage backed by a wall of the dribblingly discoloured concrete also familiar in the utopias of British urban planning.

In one corner is the Dmitrievs' home, the room they occupy in a communal flat (the maximum space per person allowed by the state that owns all city accommodation is three paces by four). Bed/settee, screens, chairs placed on tables draped with clothes – all serve as demarcation lines for Viktor and Lena and their schoolgirl daughter.

The intolerable situation can be remedied by flat swapping, much as council tenants in Britain can exchange. Private enterprise lingers in the shape of the agent, a shadowy figure of no known address who flits through the action home-broking, more for artistic gratification than profit.

By the end of the play he has set up a deal of domino dependency, a house of cards that entails a 13-way exchange of flats. But this is merely the background. Viktor comes forward as narrator to probe the tensions and cross-currents that led to his ultimate disloyalty.

Inevitably a British audience finds its own equivalents for the two families we meet. Trifonov, who died in 1981, came of a principled political family (his father disappeared in the purges); and Viktor's background includes a grandfather (Colin Douglas) who knew Tsarist imprisonment, and a dead father, spectrally returning from the birchwoods nostalgically glimpsed beyond the concrete, who wrote poems and fables while working as an engineer. Viktor's mother is a pillar of probity; and she it is who sparks off violent reactions in her daughter-in-law Lena.

For Viktor marries into the Lukyanovs: arrivistes, fixers, survivors, vulgar and materialistic. Their philosophy seems to affect even the landscape; all changes in small ways year by year, all is "Lukyanovised" as their rueful son-in-law admits. They have English counterparts, especially now. Lena is intelligent enough to feel defensive before the old values of decency she has married into. Viktor's weakness marks a falling-off of those values at "37 – well, it's not 47 and it's not 57. I still might get somewhere."

But moral inadequacy leads to tricking a down-at-heel cousin out of a job, abandoning the mistress who would, he admits, have made a better wife – "Don't . . . slouch" he helplessly orders her as she miserably slumps on the ground – and finally asking his dying mother to give up her flat in the projected swap.

They both recognise the betrayal in a scene of beautifully-played tension between Doreen Mantle and Martin Jarvis.

The play was adapted from a novel whose origins are apparent in the narrator's mammoth task. Mr Jarvis tends not to play roles that require a passion torn to tatters, so the sensitivity, observation and sheer technical accomplishment that make him one of the best actors on the British stage are taken too much for granted.

Patrick Sandford's direction takes its time – the first half is often simply undramatic – but with fine supporting players (Rosalind Ayres' Lena, Julia Watson's sympathetic Tanya, Gabrielle Lloyd who even looks like a Russian archaeologist – I imagine) the cumulative effect is powerful, resonant and, one can hazard the cliché, Chekhovian.

Martin Hoyle

Martin Jarvis

Uncle Vanya

HARROGATE THEATRE

The detritus of wasted lives, abundance unexploited, gifts unfulfilled . . . Michael Spencer's design gives us the physical metaphor in the pile of dusty papers and old books downstage, complete with junked but functioning cuckoo-clock whose mocking salutation opens the action.

As Andrew Manley's exuberantly swaggering production of *The Provoked Wife* last season showed, Harrogate's Artistic Director can seize a classic impertinently by the scruff of the neck and give it a good shake. The result here is ensemble acting without a weak link, beautifully paced with – vital in Chekhov – an ebb and flow so natural that one hardly notices the variations in speed while being kept on the edge of one's seat.

The set is dominated by a long table whose wine-stained cloth still bears the clutter of a sumptuous feast. Corrugated iron walls soar the considerable height of the theatre's acting area. The watchman taps his way along the walls while the wind howls outside; his rattling tattoo fades away offstage. The storm gives us one of the angriest retired professors ever. Geoffrey Banks' Serebryakov rages against the dying of the light in a chill anticipation of his deathbed. Lear has made it indoors at last, cared for by his family. And much good it does them.

Jonathan Burn's Vanya has a touch of the frowsy slob. Recently seen as Polonius, this actor deepens and broadens with every new role. His Vanya belongs to the Anthony Hopkins school: a threatening strength, dormant energy, underlies that grizzled stockiness. He shows the sad, self-deprecating humour of Alan Bates as a Simon Gray antihero in his playfully funny walks and self-mocking head-wagging. Above all he reminds us that Vanya is not old or even elderly, but still capable of alternating resigned lethargy and vigorous emotional menace.

As in every good Chekhov production, there is one characterisation that the actor concerned seems born for. Alexandra Mathie's Sonya, a sturdy little pack-horse aching with love as she gently and automatically feeds cheese to the perorating Astrov. Nina Young's Yelena is one of the most complete I have seen. No mere brainless beauty or flirtatious flibbertigibbet, she may lack the concentration for more than five agonised seconds of Astrov's lecture on his beloved forestry, but in her own field she is honest, straightforward and competent.

The production marks the British première of David Mamet's clear, sometimes elegant English version. Oddly I find such everyday idioms as "speak with" instead of "to" more jarring than references to deadbeats and freeloaders – the production is, after all, in modern dress.

Astrov's concern for the environment comes over with shocking and ironic topicality, especially in an area where local Conservatism shows its Green face by considering driving a road through a Domesday forest, and pulls down yet more of Victorian Harrogate for "a new multi-level retail centre."

Chekhov is with us yet; especially when such gripping productions on the Nidd argue more vitally for regional theatre than currently touted poseurs and mannerists on the Clyde.

Martin Hoyle

The Age of Anxiety

FESTIVAL HALL

Leonard Bernstein's Second Symphony, played on Friday by Peter Donohoe and the Bournemouth Symphony under Andrew Litton, is one of his more fascinating ventures in the field of "serious" music. Subtitled "The Age of Anxiety," and inspired by the Auden poem, it is an ambitious essay in big-orchestra writing, with an important and *superbly worked solo piano* part and an attached programme with obvious autobiographical significance.

When first performed, in 1949, it was criticised for eclecticism, for show-off dramatic gestures, for superficiality – in short, for all the usual Bernstein reasons.

But on this occasion, at least, the fact that the work holds together seemed beyond doubt or argument.

The attached programme, like that of Berlioz's Fantastic Symphony, is less a ground-plan than a poetic analogy for musical processes that Bernstein explores with a personal and wholly convincing combination of dramatic instinct and hard-worked musical logic.

The thematic unity of this symphony – whose material is entirely unfolded out of the simple intervallic tracery offered with quiet beauty by two clarinets at the start – is striking, the more so because of the variety of textures, styles, and moods encompassed therein.

It was a virtue of the Bournemouth performance, in which Donohoe made the piano sparkle and bounce with steel-wire strength and over which Litton exerted secure formal control, that it moved forward, from beginning to end, with complete single-mindedness of purpose.

There was, perhaps, an occasional shortage of high-gloss virtuosity in orchestral detail. The Bournemouth players have to work hard to assume the bright, supple, jazz-influenced manners of "The Masque," and sometimes the effort showed (the account of Bernstein's *Candide* Overture, which preceded the symphony, was taken at too fast a lick for *all the notes to be cleanly articulated*).

But the slight sense of sobriety that attached to the performance seemed to affirm the piece's less obvious strengths. An impressive revival.

Max Loppert

Rebecca

CHURCHILL THEATRE, BROMLEY

The Bromley audience breathed a sigh of relief as the curtain rose on Tim Goodchild's magnificently affluent looking country house drawing room of a set and comfortably relaxed for their favourite fairy story – the one about the poor but honest young girl who wins the heart of a gruff but rich man. You know, Jane Eyre – sorry, Rebecca.

Daphne du Maurier's plot was already old fashioned in 1938 but romance still rules, at least in Bromley, even if there are few men left called Maxim de Winter inhabiting mansions as lavish as Manderley on the Corwnall coast and totally committed to the happiness of their peasantry and being beastly to their young bride.

Clive Arrindell plays him with a certain detachment, as if he has just bitten on a gum boil, and as the action slowly, very slowly, evolves, there seems to be no good reason why he is so brusque with the mousey Mrs de Winter (du Maurier never got round to giving her heroine a Christian name). Helena Michell scores well as the girl Maxim casually married three weeks before at Monte, a walking, talking bowl of Brown Windsor soup if ever there was one.

Her "refeened" accent exactly catches the popular image of the respectable "gel" caught up in brooding machinations outside her experience.

For, of course, Manderley is still ruled by Rebecca, the first Mrs de Winter who drowned a year previously. Since she can't arrange the flowers herself (although being new to du Maurier I confidently anticipated her every time the double doors fell open) the brooding housekeeper Mrs Danvers (Pauline Jameson) acts as her acolyte and is even nastier to *the second Mrs DW than her husband.*

Clifford Williams has apparently modernised Daphne du Maurier's original dramatisation and he also directs. The best judge of his success is the cough counter, which was pretty disruptive during the first five scenes but totally absent during the last, in which all the action is concentrated. The audience fell into silent rapture as the play suddenly picks up speed, changing from an insipid ghost mystery into a psychologically interesting murder mystery.

Arrindell's anguish suddenly seems appropriate as he absorbs punishment like Frank Bruno and the ending manages to be both resolutely feminist and totally fantastic.

It is a great rarity to see a large strong cast performing well in such a traditional play. Mrs Danvers should surely be more menacing, but the supporting players, especially Julian Fellows as quite the nastiest villain to turn up for years and Richard Clifford, *who manages to hint that he is* willing to be more than Maxim's loyal friend, were excellent caricatures.

Anyone catching *Rebecca* will know exactly what to expect and they will not be disappointed.

Antony Thorncroft

ARTS GUIDE February 23-March 1

MUSIC

London

London Philharmonic conducted by Valery Gergiev, with Alexander Toradze (piano). Lyadov, Liszt, Tchaikovsky (Tues). Royal Festival Hall (928 8800).
Royal Philharmonic Orchestra conducted by Yuri Temirkanov. Tchaikovsky (Tues). Barbican (638 8891).
The Philharmonia conducted by Giuseppe Sinopoli. Mussorgsky, Rimsky-Korsakov, Dvorak, Tchaikovsky (Wed). Royal Festival Hall (928 8800).

Paris

The Academy of Saint Martin-in-the-Fields conducted by Iona Brown. Albinoni, Torelli, Corelli, Locatelli (Mon). Chatelet (40282826).

Bavarian Radio Symphony Orchestra. Berlioz (Tue). Bastille Opera (40011616).

Ensemble Orchestral de Paris conducted by Armin Jordan, Martha Argerich (piano) Philip-Bride, Christian Creene (violins). Bach, Haydn, Beethoven (Tue). Salle Pleyel (45638873).

Brigitte Fassbaender, mezzo-soprano. Schubert (Tue). Auditorium des Halles (40282828).

Orchestre de Paris conducted by Christoph von Dohnanyi, Alicia de Larrocha (piano). Weber, Mozart, Reich, Strauss (Wed, Thur). Salle Pleyel (45630796).

William Christie, Christophe Rousset (harpsichords). Le Roux, Rameau, Couperin (Thur). Auditorium des Halles (40282828).

Amsterdam

The Hague Philharmonic with Godfried Hoogeveen (cello), Hans Vonk conducting. Shostakovich (Mon). Concertgebouw (718 345).

Utrecht

Netherlands Philharmonic led by Philippe Entremont (piano). Strauss, Beethoven (Thur). Vredenburg (31 45 44).

Brussels

Mikhail Bezverkhny (violin, viola) and **Tchernychov** (piano). Shostakovich (Mon). Palais des Beaux-Arts.

Milan

Riccardo Muti conducting Mozart, Schubert (Mon). Teatro alla Scala (80 91 26).
Garrick Ohlsson (piano) playing Chopin (Wed). Conservatorio G. Verdi (76001755).

Rome

Jupiter Quintet: Michele Lot and Pierantonio Casulani (violins) Stefano Pancotti (viola) Gianantonio Viero (cello) and Giuseppe Zuccon Ghiotto (piano) playing Shostakovich and Schumann (Wed). Teatro Olimpico (393304).

Madrid

Madrid Symphony Orchestra, Cristobal Halffter conducting. Halffter, Marco, Mahler (Tues). Auditorio Nacional de Musica (337 01 00).
Guildhall String Ensemble. Anabel del Castillo and Robert Salter (violins). Corelli, Handel, Bach (Wed). Auditorio Nacional de Musica (337 01 00).
Warsaw Sinfonia Orchestra conducted by Krzysztof Penderecki, Grigori Zhislin (viola). Honegger, Penderecki, Bartok, Prokofiev.

Barcelona

Orquestra de Cadaques conducted by Edmon Colomer and Trio de Barcelona. Altenelle (piano), G. Claret (violin), L. Claret (cello) (Wed). Palau de la Musica Catalana (301 69 43).

New York

Vladimir Feltsman piano recital. Schubert, Karetnikov, Liszt (Mon).
Opera Orchestra of New York. Eve Queler conducting with Marvis Martin (soprano). Tchaikovsky (Wed). Carnegie Hall (247 7800).
New York Philharmonic Orchestra conducted by Zubin Mehta with Anne-Sophie Mutter (violin). Lutoslawki, Bruch, Haydn, Kodaly (Tue); Zubin Mehta conducts, Maurizio Pollini (piano). Beethoven, Webern (Thur).

Chicago

Chicago Symphony Orchestra. Herbert Blomstedt conducting, Yo-Yo Ma (cello). Haydn, Laderman, Dvorak (Tue); Daniel Barenboim conducting with the Chicago Symphony Chorus. Wagner (Thur). Orchestra Hall (435 6666).

Tokyo

Sequentia. Medieval music from Germany and Islamic Spain (Tues). Casals Hall (470 2727).
Nikikai Chorus, Shinsei Nihon Symphony Orchestra, conducted by Taijiro Iimori. Opera choruses by Verdi and Wagner (Wed). Suntory Hall (988 1555).

Sibelius and Nielsen

BARBICAN HALL

As the century gallops to an end, so the need to celebrate its most precious achievements is likely to become ever more pressing.

The BBC Symphony Orchestra's pair of Barbican concerts dedicated to Sibelius and Nielsen seems an unconscious attempt at just such a cherishing – two of the century's three greatest symphonists compared and contrasted in first-class performances under Andrew Davis.

The essays that Robert Simpson provided for the programme have enhanced the experience substantially. His encapsulation of the significance of Sibelius – a symphonic fusion of Wagnerian expansiveness with Classical dynamism – was masterly, though whether one accepts his equally high valuation of Nielsen depends, I suspect, on sharing Simpson's own view of the significance of tonal processes.

Strange, though, that while Nielsen's cause could not have been better served than by the programming of the Fourth and Fifth Symphonies, the choice of Sibelius in the two concerts only partially illustrated the truth of Simpson's argument; none of the late works in which all the threads are pulled together was included.

On Saturday Davis conducted Sibelius's Second Symphony and Nielsen's Fourth, introducing them with *Finlandia* which he tried hard to make organic and coherent but did not quite bring off.

In the symphonies, however, playing and control were exemplary; as a resident London conductor now rather than a guest, Davis seems to have renewed his resources, so that nothing was allowed to be routine and fresh, intelligent solutions were sought to each interpretative problem.

Not every aspect of the Nielsen was quite in place – the first movement can seem more incandescent, a single molten curve of energy; the surge into the recapitulation went flat.

But the central movements' delicacies were elegantly overseen and their moments of power fully revealed, and the finale's last great tonal clash was absolutely on target.

So too in the Second, shaping everything up to the "vast singing" – Simpson's marvellous phrase – at the heart of the first movement, and getting to grips with the polarities of the Andante.

In the finale, with its fleeting nods to Wagner, Beethoven, Tchaikovsky, the course was clear and unswerving; if Davis intends to give us more Sibelius with the BBCSO on such form it will be well catching.

Andrew Clements

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Business and pollution

THE £1m fine levied on Shell in a Liverpool courtroom last week for polluting the River Mersey with crude oil is the latest and, for Britain, one of the most striking signs yet that business is facing a new environmental agenda.

The Exxon Valdez oil spill in Alaska last year, Perrier's withdrawal of its worldwide stock after the discovery of benzene traces in its water, the report linking Britain's Sellafield nuclear plant with leukaemia in children and now the fine on Shell – these incidents differ greatly in detail. But they have one thing in common: the intense pressure placed on the companies involved in the current climate of rising concern about environmental and safety issues.

Business might be tempted to put its head down and wait for this new environmental assault to subside, just as previous waves of green consciousness have done in the past. But this would be a mistake of the first order.

For a start, the peaks and troughs in environmental concern tend to be on a rising trend. Many industrialised countries are now legislating for tighter controls on industrial pollution. These new laws, such as the Clean Air Act before the US Congress, will not be repealed if and when the present green ferment dies down. They will be the foundation on which further measures will be built during the next wave.

Tougher penalties

Companies will have to learn to live with tougher penalties for activities which damage the environment or threaten human safety. These penalties may flow from the rising costs of dealing with pollution; Exxon last week added another $300m to the $1.38bn of special charges already levied against its 1989 earnings for the Alaskan clean-up. They may come from the logic of the marketplace, which dictated Perrier's decision to withdraw its entire stock.

The new climate will give greater credibility to organisations which by temperament are hostile to business. Every major accident will call forth a wave of anti-industrial sentiment. Yet heavy industrial activities, such as those in chemical works or oil refineries, inevitably carry risks.

The rational demand is not that accidents should never happen. Rather, industry should do everything to prevent accidents in the first place; it should have mechanisms in place to respond rapidly whenever an accident has occurred; and it should be open about what has happened, thereby avoiding groundless suspicion and fear among the general public.

Inadequate procedures

The Exxon Valdez and Shell's Mersey spills, although on vastly different scales, both revealed inadequate procedures for preventing oil pollution. This was the more regrettable since the two companies had long been assuring the public of their concern for the environment. Both companies could also have been more open. Shell, for example, refused to comment in other than the most anodyne way immediately after the judgment last week. Its excuse – that it is waiting for a report from the pipelines inspectorate of the Department of Energy – does not justify its refusal to say whether it has altered operating procedures elsewhere in the UK as a result of the Mersey spill.

British Nuclear Fuels, the operator of the Sellafield plant, has been wrong-footed by the leukaemia report. For years, the nuclear industry treated investigations into possible links between radiation from their plants and leukaemia clusters as will-o'-the-wisps pursued by anti-nuclear pressure groups for propaganda purposes. The announcement last week that BNFL is now prepared to fund a full study of the link is, putting it at its mildest, late in the day.

The new climate is already bringing a tougher regulatory framework to bear on companies throughout much of the industrialised world. It is imperative that this goes hand-in-hand with an improvement in industry's internal procedures, not just on the technical front but also in the explanations offered to the general public.

Aftermath of a dispute

THE PROSPECT of an end to Britain's ambulance dispute, and at a cost which is rather less than ministers might have feared, will be a great relief to the Thatcher Government. But the public, which has had to endure yet another disruption to an essential public service, will want to be assured that the settlement marks, not just a temporary truce, but the start of a search for a lasting improvement in the industrial relations and wage-setting process.

The Government and the ambulance unions have put different figures on the value of the deal reached in the Whitley Council. What is beyond argument is that people have died unnecessarily as a result of the conflict. National Health Service managers and union leaders should resolve never to let the same thing happen again.

The dispute has been so prolonged that the other health service groups covered by Whitley Council negotiating machinery are once again preparing for talks about annual pay awards. The two-year agreement should at least ensure a period of calm in which to devise a better way of rewarding ambulance staff for their distinctive skills.

The human cost of the conflict has been such that neither side can properly be said to have won. But the Government's success in resisting union pressure for a fixed pay formula similar to that for firefighters and police officers is important. If it had conceded this point, it would have had difficulty resisting similar demands from other groups.

Complex deal

The complexity of the deal makes it harder to judge the victor on pay. Mr Roger Poole, the chief union negotiator, lapsed into hyperbole when he talked of driving a coach and horses through government pay policy. A two-year deal worth 13.3 per cent hardly does that, even if it is more generous than others for workers covered by other Whitley Councils.

The deal is better value for health authorities' money than suggested by some of the higher figures quoted in the aftermath of talks suggested. Extra payments for paramedics are a sensible attempt to encourage a more highly-skilled service. The 2 per cent increases tied to local savings are a useful incentive to greater efficiency.

Mechanism overlooked

The most disappointing aspect of the agreement is that it provides no mechanism to stop tensions over pay building up again. None of the fundamental issues raised by the dispute – the value of local pay bargaining, the need for a two-tier ambulance service, and the disadvantages of constrained pay bargaining in Whitley Councils – has been resolved.

During the dispute, Mr Kenneth Clarke, the Health Secretary, said he wanted to make progress on all these issues. Instead, the agreement seeks more local pay flexibility within a national framework, guarantees no extra money for health authorities to train paramedics, and assumes that the Whitley Council will carry on much as before.

It would be a pity if the Government once again lost interest in trying to achieve a more coherent and stable form of pay determination for a group of public sector workers as soon as an industrial dispute subsided.

Instead, Mr Clarke should ensure that NHS managers apply their minds to the underlying issues before pay talks restart next year.

The agreement says that future pay negotiations should take account of "career and pay structure problems." One lesson of the dispute is that Whitley Council negotiations are often an inefficient means of doing this. Instead, separate talks are now required on reforms to the structure of the service and a new means of long-term pay determination.

Such talks would provide a chance to find a way of avoiding the cycle of pay constraint and conflict that characterises much of the public sector. Mr Clarke was right to reject a rigid pay indexation formula, but more flexible forms of long-term pay determination are possible, as the Government has already shown in the non-industrial civil service.

Kevin Done analyses Friday's elaborate deal between Volvo and Renault

Renault and Volvo are embarking on a new form of marriage. Each partner is keeping its maiden name and each will continue to live at its own address.

The pre-marital agreement, announced last Friday, specifies that each partner maintains its "integrity and independence," in the words of Mr Pehr Gyllenhammar, Volvo's chairman and chief executive. Married life will be lived out in a series of joint committees.

Both Mr Gyllenhammar and Mr Raymond Lévy, Renault's chairman and chief executive, have clearly become convinced that the two groups' future is threatened by the increasingly brutal competition they expect in the automotive industry.

For Mr Lévy, Renault and Volvo are joining forces "in as balanced a way as possible." For Mr Gyllenhammar, this is a new sort of relationship that transcends the old rule of "eat or be eaten." This is an alliance, he said, where both groups will "keep their integrity, will keep both HQs, but gain considerable synergies and increased efficiency. We will be well above the critical mass needed to compete in the world industry."

The flirtation between the two groups has lasted a long time. A decade ago Renault took a minority stake in Volvo's car subsidiary. This rose to 15 per cent, with an option to increase it to 20 per cent in 1985-86. Like Friday's deal, the 1979 agreement was announced in ringing terms. It, too, was ambitious, providing for "co-operation in research, product development and production."

In the event, the aims were never realised. The contrasting financial fortunes of the two groups, which had drawn them together, were reversed. Originally it was Volvo's shaky finances that were the foundation for a deal. By the mid-1980s, however, Volvo was flourishing – and Renault was losing money on both cars and trucks. Hampered by its role as the flagship of French state-owned industry, it had been slow to react to the crisis of the early 1980s. In 1985, it lost FFr 10.9bn (£1.1bn). It did not exercise its Volvo options and sold back its remaining 9.4 per cent stake in Volvo Cars at the end of 1985.

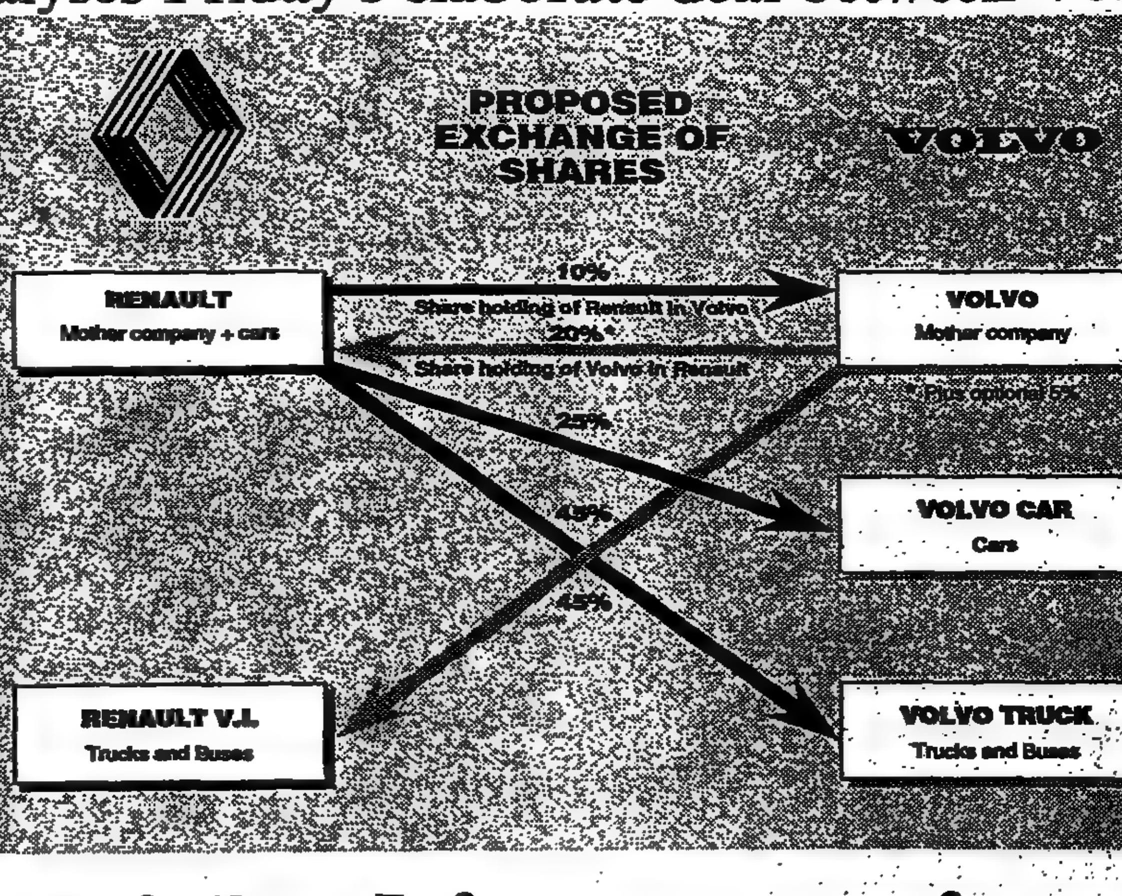
Since then, Renault has staged a dramatic recovery. It cut its workforce by 30 per cent over three years; drastically improved productivity and quality; sold American Motors, its US subsidiary, to Chrysler; and recapitalised its truck and bus operations. In 1988, it achieved a net profit of FFr 8.9bn.

Volvo has been enjoying record profits in the second half of the 1980s, but the profitability of its car operations has been weakening, with the truck activities taking up the slack. In 1985, the car business contributed 95 per cent of group operating income, with the truck operations contributing 14 per cent. (There were offsetting losses in other areas.) By 1988 the truck operations were contributing 37 per cent of the total, with 50 per cent coming from cars.

Volvo has been clearing the decks in order to concentrate its resources on its automotive operations. The years when corporate survival appeared to lie in diversification are behind it, as are its adventures in oil, biotechnology and food.

Now, at the beginning of the 1990s, both Volvo and Renault have their finances in order. At least for the moment, they have firmer ground under their feet. This allows them to consider visions for the future, with neither side starting from a position of particular weakness.

And each company has its individual strengths. Volvo is one of the world's leading heavy truck makers, outgunned only by Daimler-Benz. In cars, it has only 2 per cent of the west European market, but it has a strong image of safety, reliability and longevity. It is one of the most successful European car exporters to the US.



With this committee I thee wed

Renault is still a full range volume car maker. Although it is the weakest of the Europe's six big carmakers, it has more than 10 per cent of the west European car market, only four percentage points behind the leaders. Its truck subsidiary, Renault Véhicules Industriels (RVI) has a strong market position in southern Europe, France and Spain. It is present in the market for light and medium trucks, from which Volvo is largely absent.

The two companies agree on the agenda they face. The pressures forcing them together, outlined by Mr Lévy in a recent speech, include:

- The danger of a downturn in the present record levels of European car and truck sales
- Questions of "the very acceptability of the automobile" because of such factors as air pollution, noise, traffic congestion and safety
- The quickening pace of technological change, with sharply rising research and development costs and the launching of new models at ever closer intervals
- The rapid rise in capital expenditures and steeply climbing marketing costs as competition grows fiercer "with the attendant risk of a price war"
- Overshadowing all these elements, the Japanese threat. The building of Japanese production and engineering capacity inside Europe means that the Japanese share of the European market could soon rise to 18-20 per cent from the current level of around 11 per cent. That would imply the possible elimination of one of the present volume carmakers in Europe.

According to Mr Lévy, "the risk is clear to see: factory closures, even whole corporations shutting down, massive redundancies – in short the very survival of the European industry is at stake."

The solution, he says, is for companies jointly to achieve economies of scale in research and development, production of engines and gearboxes, and some types of automated equipment. They must share experience, seek synergy in model ranges and distribution networks in some countries, and harmonise positions on pollution, safety and traffic congestion. "In unity lies strength," he says.

Renault and Volvo are gambling that they can gain the necessary economies of scale even though they are stopping short of full merger or the acquisition of control, the routes chosen recently by Ford with Jaguar and General Motors with Saab.

"We think the economies of scale lie not primarily in production but in technology development and product development," says Mr Gyllenhammar. "We have big advantages to gain in these areas and in purchasing."

Volvo and Renault plan to co-ordinate product development programmes, especially in the areas of advanced engineering and components; to co-ordinate purchasing; and to harmonise investment plans, in order to secure economies of scale and limit duplication.

Purchasing should offer immediate gains: the two companies have a combined purchasing volume in excess of FFr 100bn. Otherwise, however, it will take several years for the potential benefits to flow. Mr Roger Holtback, head of Volvo's car operations, says: "We have to plan very much for the second half of the 1990s. Most of our product development programmes are set for the next three to five years."

Mr Holtback is clearly envisaging joint development of new vehicles, at least for niche segments. One possibility, for instance, would be to draw on Renault's strength in people carriers, as in its Espace model, and Volvo's strength in traditional estate cars.

"When you see sky-rocketing development costs and increased globalisation," says Mr Holtback, "you must have the necessary volumes and engineering capacities."

On the truck side of the automotive equation the threats appear no less menacing. According to Mr Sten Langenius, head of Volvo Truck, the cost of achieving the levels of emissions that will be required in future "will be of such magnitude that a consequence will be the restructuring of the truck and truck component industry worldwide."

At the same time the deregulation of the European transport industry will lead to the creation of bigger, more powerful transport groups, able to exert downward pressure on the truck industry's margins. With profitability already unsatisfactory in parts of Europe and in North America, Mr Langenius predicts further shake-outs and mergers.

Volvo and Renault have decided to face the gathering storms hand in hand. Whether marriage by committee proves an adequate response remains to be seen. There is, for example, already one significant difference between the two groups' positions. For Mr Lévy – though not for Mr Gyllenhammar – the process of uniting the European automotive industry must go on behind continuing walls of protection from its Japanese rivals. "Too sudden an opening of European markets to the Japanese would destroy the European car industry," he said late last year.

Such differences may simply underline the "integrity and independence" the two companies are determined to retain. None the less, the task of co-ordinating two teams of engineers, product planners and purchasers – each equally set on integrity and independence – will not be easy. The elaborate structure linking the two groups will have to take a great deal of strain.

Ominously, at a chaotic press conference in Amsterdam on Friday, the structure seemed less than robust. Neither Mr Gyllenhammar nor Mr Lévy was able to take charge of the occasion for fear of upstaging the other. If the newlyweds are to realise the hopes they pin on matrimony, they may have to sacrifice such delicacy.

Political sensitivities of preparing Renault for the partnership

IN 1987, the right-wing government of Mr Jacques Chirac ran into a storm of opposition from the French Communist Party when it tried to turn Renault into a limited liability company from a "Régie," a state institution with almost unlimited protection against bankruptcy.

Now, the socialist government of Mr Michel Rocard is attempting the transformation, as a requirement of Renault's alliance with Volvo. Again, the communists are opposed.

Mr Mitterrand, previously against the transformation, now approves, even it appears to go against his 1988 electoral commitment to halt all privatisation or nationalisation during at least the current parliament, the "ni ... ni ..." doctrine, meaning "neither ... nor ..."

Mr Rocard stressed voters that the Renault-Volvo deal does not infringe the ni ... ni ... doctrine, since the state retains full control, and shares are not being sold to the public.

Mr Rocard is correct when he adds that the doctrine has been applied flexibly. State-owned companies needing to raise capital have been able to do so, whether through ingenious new financial instruments, like Rhône-Poulenc, the chemicals group, or through cross-shareholdings with other state companies, like Crédit Lyonnais, the bank. They have also been able to make acquisitions and disposals.

Yet the Prime Minister last week summoned leaders of the three main socialist party movements in order to win their backing for the Renault-Volvo deal, and ensure that it should not be a bone of contention at the socialist party congress next month.

The last two major foreign deals by French state-owned companies – the acquisition of American National Can by the aluminium company Pechiney, and Rhône-Poulenc's agreement in principle to buy Rorer, the US drugs company, have both given rise to insider trading investigations.

Yet the triumph of the French right, who claimed at the weekend that the socialists had finally discovered the virtues of privatisation, also appears misplaced. Although the socialists may have accepted that the boundary between public and private sectors should be permeable, they have not abandoned the idea that state enterprise has a significant role to play in the economy, and may in fact have strengthened this role.

Officials also appear confident that changing Renault's status from a Régie will settle European Commission's complaints about its high government subsidies.

George Graham

Letters to the Bank

■ The Bundesbank receives a lot of letters and telephone calls these days, not least because of the possibility of monetary union between East and West Germany. Recently it has been fielding about 200 calls a day on the subject.

Important though this is, however, it is as nothing compared to the reactions to the Bank's decision to start advertising.

The central bank is not exactly promoting itself. It is mounting a campaign to publicise and explain West Germany's new banknotes, which go into circulation next October.

Stimulated no doubt by the historic questions now facing the two Germanys, the response to the invitation to write for more information has been enormous – some 15,000 letters in the two weeks since the full-page advertisement was first run.

Not all the letters are directly about money. Some women want to know why female faces will tend to be restricted to the lower denomination notes. The Bundesbank's answer is that these are the ones in greater use and are thus seen more often.

There is also a point of style. On the DM1,000 note, which few will possess, is a picture of the Brothers Grimm of fairy tale fame. In the German text of the ad, they are called Die Gebrüder Grimm, as they are generally known. But Gebrüder is normally used in company names. Brüder would be grammatically correct.

The Bank has five people working full time on the letters. One day last week, three secretaries sent off 6,000 replies.

Moreover, the weight of public opinion may force one significant change in central bank policy. In view of the momentous events that have enveloped Berlin and in response to popular demand, it is considering putting the city's Brandenburg Gate on some of the notes.

OBSERVER

Think of it

■ "If all the articles that are normally found in the kitchen – plates, pots, cutlery, electrical appliances large and small – were laid end to end, it would add up to a good many metres." Press release from a Milan kitchen furniture trade fair.

Piper's Boom

■ The game of musical chairs following the merger of Coopers & Lybrand with Deloitte is claiming a senior victim this week, but he is going straight into a new career.

Geoffrey Piper went to Liverpool from Jersey in 1986 as Deloitte's senior partner. Nobody in the firm wanted the job because of Merseyside's reputation, and he says he will never forget the look on his wife's face when it was offered.

The 46-year-old Piper has now lost the contest to be the new firm's top man in the north-west region – the post goes to John Jeffrey – and is leaving the company. But there will be no going back to the south or offshore. The Pipers are staying put because they like where they are.

Three years ago Piper founded Boom – Business Opportunities on Merseyside – a lobby group of private sector and political leaders to help promote economic revival in the region. So when a headhunter called to see if Piper could suggest names for a chief executive of the north-west business leadership team, he put his own name forward.

The team consists of about 30 senior industrialists chaired by John Ashcroft of Coloroll and includes the Duke of Westminster, Sir David Alliance of Coats Viyella and Des Pitcher of Littlewoods.

"...Hello, I'm canvassing for the Conservatives at the council elections...Hello, I'm..."

It wants to see greater business support for community projects and economic regeneration on a wider scale than anything attempted before by bodies such as Business in the Community.

There is a belief in the area that Shell got away with a relatively light fine (£1m) last week for polluting the Mersey partly because of its support for worthy causes like Piper's Boom. Doing good could be an insurance against the occasional clanger.

Irish troubles

■ "Shiney", an Australian resident in Dublin for nearly 150 years, is finally going home. At least part of him is on its way back down under.

"Shiney" is the preserved head of an aboriginal warrior who died in the middle of the last century. The head was donated to Dublin's Royal College of Surgeons in 1845 by a doctor back from the Antipodes with his dubious booty.

Recently the presence of "Shiney" in the Irish capital has been generating some embarrassment. Rikki Shields, an Australian aborigine, arrived in Dublin to lobby politicians for the return of "Shiney" to Australia. "Nobody can own somebody else's head," said Shields.

Next came Michael Mansell, who claimed he was a direct descendant of "Shiney". Mansell said "Shiney" had been murdered while working at Hobart docks. His head had then been preserved and unceremoniously carried off to Europe. Mansell insisted that his ancient relative could not die until his head received a sacred burial.

The Royal College of Surgeons in Ireland has now given in. But there may still be arguments about a final resting place. The Irish surgeons say they want "Shiney" to go to the National Museum of Australia. "Shiney" campaigners are demanding special burial in Tasmania.

Two Becketts

■ Far and away the best of the British political reference books is Dod's Parliamentary Companion. The 1990 edition, however, contains an uncharacteristic error. The biography of Margaret Beckett, the once left wing wing Labour MP for Derby South and now the very model of a statesmanlike shadow minister on Treasury matters, is printed twice: once alongside her own photograph and then beside a picture of Roy Beggs.Beggs is the Ulster Unionist MP for East Antrim. Apologies have now been made and a special cutting of his biography has been sent out to paste over the mistake.

Argentina

■ "What is better value for money in Buenos Aires – a bus or a taxi ride?" "The taxi ride, because with a bus you pay when you enter and the taxi when you get off."

Carla Hills is still going through what Clayton Yeutter was going through in his first couple of years – and that is trying to deal in good faith, not understanding that the Japanese in all honesty don't and that they can't.
– Senator Jay Rockefeller

Carla Hills, US Trade Representative, tells **Nancy Dunne** about her Government's policy towards Japan

Grasping the skill to negotiate

This assertion, delivered in a Senate hearing, evokes a frosty glare when repeated to Mrs Hills, the meticulous, determined US Trade Representative who succeeded Mr Yeutter a year ago. She brushes off the Rockefeller comment, noting that the senator, a Democrat, is one of those who support "managed trade." Then she launches into a lecture about how the managed trade approach – which would involve bilateral agreements on import targets – could actually limit US sales.

"Managed trade sells our entrepreneurial system short. The bureaucrats never know exactly what the market knows better," she says.

The debate over managed versus free trade persists in Washington, where the years of US trade deficits have unleashed a hostility and cynicism towards Japan that had been thought laid to rest after the Second World War. In political terms, Mrs Hills is perched above a smouldering volcano.

If the US economy weakens, and if Mrs Hills fails to convince the Japanese Government and companies to change the country's business ways, protectionist pressures will again grow close to eruption.

Mrs Hills, however, displays a gritty self-confidence. "I wouldn't have been able to have survived a year in this position if I weren't an underlying optimist," she says. "I do think when I am pushing the correct argument, that I'm not the only rational being."

With the Japanese elections past and the LDP still firmly in control, Mrs Hills has high hopes for progress in the bilateral negotiations under way this week over access to Japan's supercomputer and telecommunications markets.

As the world's second largest market, Japan must absorb a great deal more imports if the world trading system is going to function properly, she said. "Altruism is out. Self interest is in," she said. "Japan relies on trade and investment. If it so poisons the atmosphere that barriers are put up, it will have killed that goose that has laid, and continues to lay, the golden egg.

"Is it going to be easy to get change? No. They have their own political limitations just as I have mine."

An early view of Mrs Hills in Congress was that, as a newcomer to the arcane world of trade, she would be easily outmanoeuvred at the bargaining table. She came to the job, however, with government experience: former Housing Secretary in the Ford Administration (where she performed well enough to encourage her supporters to push her as a candidate for Vice President in 1976) and a former Assistant Attorney General. A member in good standing of the Washington moderate Republican establishment, she is married to Mr Roderick Hills, former chairman of the Securities and Exchange Commission.

Her performance last year gained her increasing respect in Washington. From her inaugural promise to use a crowbar to open markets, to her deft handling of the potentially lethal powers granted in the 1988 trade bill, she has achieved a number of concessions from US trading partners.

"There was enormous anxiety about my appointment," Mrs Hills said of Congress. "They had to get to know me and recognise that I did understand the issues and I would not tell them something that was not what I believed . . . I have established my credibility."

Seen from abroad, Mrs Hills came across as a slow starter in trade diplomacy. Her reputation for toughness preceded her into the international arena. This led to worries that she would refuse to listen to the arguments of others and that she would prove inflexible in negotiation.

The problem was compounded by the heavy workload of her early time in office and delays in Congressional confirmation of her key aides.

Her first year was packed with deadlines. She implemented the US-Canadian Free Trade Agreement; negotiated a new quota agreement under which the major steel producing nations agreed to end government support for the industry; and produced the first list of unfair traders required under the 1988 trade act, singling out Japan, Brazil and India.

Under threat of US retaliation, Argentina, South Korea, Taiwan and Saudi Arabia increased their protection of intellectual property rights; South Korea promised to eliminate important market barriers and liberalise foreign investment rules; and Japan agreed to open its telecommunications markets to US cellular telephones and third-party radios.

It was only after last Autumn's Trade Ministerial meeting in Tokyo that she emerged to win widespread plaudits for taking the lead in pushing forward the Uruguay Round of multilateral trade negotiations.

None the less, there is concern among US politicians that she has only succeeded in delaying an inevitable trade war with Japan. Her optimistic assessment that progress can be made draws scepticism in Congress. Many concur with the thinking – known as the "revisionist" view – that Japan is so different from other countries, so averse to foreign intercourse for purposes other than profit that it will be unable to change its basic mercantilist nature.

Mrs Hills says she is an admirer of the Japanese for "their tremendous energy, their industry and culture," and she sees signs of change in the rising tide of Japanese imports. The US merchandise trade deficit with Japan last year slipped from $51.8bn in

Carla Hills: 'Altruism is out. Self interest is in'

1988 to $49bn with imports rising much faster than exports.

"They have to work fast to catch up," she said. "I'm just fearful that they won't run fast enough before the animosity, which doesn't have a safety valve, reacts in a way that is destructive to the multilateral system."

There are, she added, diverse shades of opinion in Japan on trade, just as in the US. Some ministers she meets are "forthcoming"; others "read from a script." Her challenge is to "energise" the former, backing that up with direct appeals for open markets to Japanese business and consumer groups.

Mrs Hills has also embarked on a series of public appearances to gain domestic support for US policies in the Uruguay Round. The gains of 1989 pale beside the challenges of 1990 as the members of the General Agreement on Tariffs and Trade head into a final year of formidable negotiations.

She is determined to negotiate "clear and enforceable" rules governing the trillion dollars of trade not covered by the multilateral pact. But, to ensure Congressional support for US concessions, Japan must be seen as ready to take its share of pain.

The Administration has adopted a dual approach towards Japan, meeting Congressional demands for sectoral negotiations to open the market for imports of supercomputers, satellites and wood products. A second broader set of talks is targeted at embedded trade barriers under the Structural Impediments Initiative.

The focus has been on anti-competitive Japanese practices – an unwieldly patent system, bid rigging, price fixing market allocation, group boycotts – which have been documented by overseas entrepreneurs, Mrs Hills said.

Although the talks have so far yielded little, the two sides have agreed on a format in a style consistent with Mrs Hills's penchant for demanding "action plans." An interim report outlining what both sides can do to rectify the trade imbalance is due in April; a final report containing a down-payment must be forthcoming by summer.

Mrs Hills is fully aware that past attempts to move Japan have proved futile. "But as the globe becomes more interdependent, as they invest here, as they understand from their own best interests that their opportunities are going to be cut off, we have to have hope."

If all else fails, she is prepared to use the US market as a weapon, but such a course would be "very disappointing."

"Retaliation won't get the markets open," she said. "I will have to take action that closes additional markets. But sometimes you have to take the unhappy solution to ultimately achieve your aim. I hope my trading partners understand. That's not my preferred course of action."

LOMBARD

Sterling's entry rate into the EMS

By Samuel Brittan

A *NEW* paper* by the National Institute of Economic and Social Research discusses the exchange rate at which the UK should enter the EMS.

Readers will not be surprised that it failed to convince me. But like all good papers it is useful in clarifying where one might disagree with the authors and also in pointing to a policy alternative. In the main two cases examined, sterling is pegged to the D-Mark from the point of entry at the beginning of 1991. Entry, according to the authors, would involve a shock-horror devaluation to DM 2.35 or DM 2.4. British short-term interest rates would also have to fall smartly to reach 1 to 2 per cent above German rates.

But that is not all. To offset the stimulative effects of such low rates and to make room for the expected devaluation boost to exports, fiscal policy would have to be tightened to an extent not dreamed of by John Major, the British Chancellor, in his worst nightmares. Taxes would have to be raised or expenditure cut by £4bn to £6bn this year, and a further £7bn in 1991 with a little more in 1992, just as a sweetener for the electorate. But despite these draconian shifts, underlying inflation would be hovering around 6 per cent per annum until the middle of the decade and would not finally drop to 2 per cent before the closing years of the century. No one in his senses would contemplate such a package.

The authors believe that the UK current account deficit reflects not merely excess *demand*, but a real exchange rate overvalued by 5 to 10 per cent – which makes its recovery in the early part of 1990 seem particularly perverse.

The NIESR view is based on certain crucial assumptions:

- That there are negligible long-term capital inflows and that the UK current deficit has to come down to near zero.
- That there is such a thing as the fundamental equilibrium exchange rate, and that this is best calculated not by the purchasing power parity (estimates of which suggest that sterling is undervalued and that the appropriate exchange rate is well above 3 DM), but by "econometric equations representing the flows of trade that actually take place."
- That short-term changes in fiscal policy have powerful effects on demand.
- That the EC inflation rate will average 2½ per cent per annum and that European interest rates will fall rather than rise over the next year.

Even optimists about the effects of German monetary union now expect the German inflation rate – let alone that of neighbouring countries – to average 3 per cent. Nevertheless, it is the first three assumptions that are the more interesting and controversial.

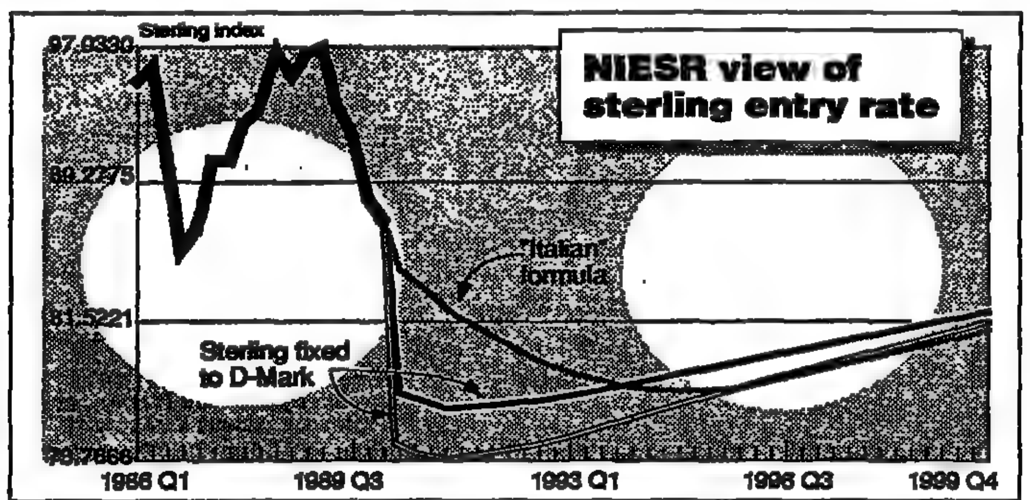
Instead of entering into a head-on conflict about these assumptions, let me point to an alternative entry policy sketched by the NIESR. This is the "Italian case" and allows for occasional sterling devaluations against the D-Mark after entry averaging 2 per cent per annum between 1991 and 1995. The suggested entry rate of DM 2.6 is still too low, but at least it avoids the horrendous devaluation and tax increases of the main cases.

Indeed, the band of 6 per cent around the central parity which the Italians had until a few weeks ago and the Spaniards still use, would allow an initial entry rate at the current sterling rate or higher, but with adequate insurance just in case there turns out to be something in NIESR fears.

One great advantage of the Italian formula is that it would allow the Chancellor to signal that he favours a strong pound and maintain for the time being a large interest differential in favour of sterling by joining the EMS at near the top of the wider band.

Did I hear someone say that Britain cannot be compared with Italy? Indeed, it cannot. For Italian growth and inflation performance have been so much better. But even the British can still learn.

**An Analysis of the Optimum Level of Entry for Sterling into the ERM. Simon Wren-Lewis and Associates, NIESR, 2 Dean Trench Street, London SW1*



LETTERS

No new timber growing in the socialist forest

From Lord Hanson.

Sir, To judge from Marjorie Mowlam's tone (Letters, February 20), the whole capitalist system is under threat from the bankruptcy of Drexel Burnham. In fact, nothing could be further from the case.

A reasonably large tree has fallen in the capitalist forest, resulting in some localised squawking and enforced relocation, but the rest of the forest is still standing and new growth is shooting up from the floor to fill the available space. That is how our system works and why it is so successful – there are winners and losers, with a constant renewal of position.

But Ms Mowlam looks East not West. Typical of Labour policy, she wants to replace a system which works, with one that does not. Somehow she has failed to notice, that in the socialist model forest, all the rotting timbers have fallen and nothing new grows in between.

Financial markets are prone to periods of excess. The latter stages of the "junk bond" era no doubt brought examples of excess for which some, but by no means all, will suffer. Nevertheless, the high interest bond market is not dead. It is, and was, a vital source of finance to the 99.9 per cent of US companies which were not given "investment-grade" ratings by the credit agencies.

Is not Marjorie Mowlam's real motive to seek to use the Drexel bankruptcy – a hugely complex issue with many contributing causes – to construct a case for opposing takeovers? Virtually every impartial study on takeovers concludes that their effect is beneficial to the economy at large, because they break up management log jams when successful and, when not, stimulate incumbent managements into better efforts. Her understanding of the circular flow of money is so feeble (unless it is a cynical attempt to mislead) that she asserts money raised for "deals," somehow drains the pool of money available for assets. Her case is not made.

The only chance of a truly junk bond market of any size in the UK, would be that in government securities if a Labour Government were to come to power. Fortunately, I do not think it will.

Lord Hanson
Chairman,
Hanson,
1 Grosvenor Place, SW1

Glaxo scientists' tests not a marketing ploy

From Mr Richard Sykes.

Sir, Your report ("Glaxo in row over drug cancer claim," February 17) does less than justice to the scientific objectives of our toxicologists who wrote a letter to The Lancet on the testing of anti-ulcer drugs.

The pharmaceutical industry devotes many millions of pounds and many years to the development of a new medicine. It is very much in its interest to eliminate toxic compounds at the earliest possible stage in the development process.

For that reason over the last three years scientists at Glaxo Group Research have been working to develop a more effective screen for new compounds before they start the toxicity testing required by regulatory authorities. The new test detects the ability of a drug to cause damage to cells in the target tissue – the lining of the stomach in the rat – which increases the potential for cancer.

Glaxo scientists applied the test to loxtidine, a Glaxo research compound which had previously been shown to cause tumours in rats, but got a negative response. For comparison, omeprazole, a compound discovered and marketed by AB Astra (and also shown to cause tumours in rats), was examined. Our scientists were surprised and concerned to note a positive response which was reaffirmed in five separate experiments. Other anti-ulcer medicines exposed to this test, including one of another company, gave negative results.

Glaxo has taken the findings of these tests very seriously. They were communicated direct to Astra and the letter sent to The Lancet.

This test cannot be dismissed as "a marketing ploy." The results raise important questions and will now receive serious consideration and independent evaluation by the international medical and scientific community.

Richard B. Sykes,
Group Research & Development Director,
Glaxo Holdings,
Lansdowne House,
Berkeley Square, W1

Education's value

From Mr Simon Taylor.

Sir, Samuel Brittan suggests ("A lesson in inheritance," February 22) that the notion that education is valuable for its own sake is "subversive of the human capital view."

I am not sure this is so: it simply means that some of the long-term flow of benefits come in kind as opposed to money earned. The decision to invest can still be interpreted in a human capital framework.

The issue for policy remains how far the benefits from educational investment accrue solely to the individual and how far there is an extra benefit to the rest of society.

Simon Taylor,
St Catharine's College,
Cambridge University

Roof tax: the case for 'standing and consumption charges'

From Mr J.A. Charman.

Sir, Your editorial comment ("The Case for a Roof Tax," February 16) comes down in favour of a property tax based on capital values, supplemented by a local income tax.

I would support the first part of your preferred solution but not the second because I do not believe that taxpayers would want local authorities to have details of their income. Instead, I would take a leaf from the book of the public utilities (electricity, gas and telephone) and treat the property tax as a "standing charge" supplemented by a "consumption charge" based on the number of adult occupants.

The property tax element, like the new uniform business rate, would have future rises linked to inflation and the consumption charge would have no such link. It would, however, be set initially at a very low level and every adult on the electoral role would pay it.

The high gearing effect of this would mean that any local authority then wishing to adopt a spendthrift policy would quickly find itself out of power when that policy started to hurt the pocket of its users, whereas the more prudent authorities would be able to point to the low level of its "consumption charge" as proof of good husbandry.

J.A. Charman,
23 Millbank Court,
John Islip Street,
Westminster SW1

From Mr Henry Law.

Sir, Your editorial comment ("The case for a roof tax," February 16), in fact, set out the case for a tax on land values.

A local tax on land values alone would be much fairer and simpler than a tax assessed on the value of land, bricks and mortar together. There can be no justification for a tax which penalises those who modernise or improve their premises, yet exempts from payment those who allow buildings and land to stand vacant and derelict. It is surprising that the Labour Party is not proposing a local tax on land values, since this would also achieve one of Labour's long-standing aims – collecting development value arising from planning decisions.

The Layfield Report of 1976 dismissed land value rating from consideration principally because it would have conflicted with the workings of the Community Land Act, but the act is now defunct.

Although Layfield came out in favour of a local income tax, its introduction would be fraught with practical difficulty. Being based on mobile people rather than fixed property, a local income tax would suffer from all the difficulties of administration which are now coming to light with the Poll Tax.

How would a local income tax system deal with investment income and rebates? How would the local income taxes (and rebates) be apportioned when people moved between local authority areas during the course of a tax year? What would prevent people lodging themselves at "addresses of convenience," where the rate of local income tax was low?

Henry Law,
19 Queen's Gardens,
Brighton, Sussex

FINANCIAL TIMES
Monday February 26 1990

HAVEL EXPECTS CRUCIAL BILLS THIS WEEK

Czechs lay base for market system

By John Lloyd in London

THE CZECHOSLOVAK Government is today likely to approve three bills which will lay the foundation of a market system.

President Vaclav Havel said yesterday at a rally organised by the opposition group Civic Forum that he expected the bills would be presented to parliament this week or next.

But he also warned his countrymen of the hardships they would have to endure on the newly planned road to prosperity.

"The recovery will last many years and will be paid for with many a hardship," he told the rally.

"It will be a punishment for our passive participation in this work of destruction," he explained, alluding to the acceptance of Communism by the majority.

The three bills are:

- A law on state enterprises, which will permit the typically large Czechoslovak state companies to sell shares to their workers.
- A law on private enterprise which will allow Czechoslovak citizens to start companies of their own with no limits on numbers employed or amount of output, and with the same rights as state companies.
- A law on shareholding companies which would allow foreign capital to own up to 100 per cent of a company based in Czechoslovakia.

Under preparation is a fourth bill which would demonopolise foreign trade and allow Czechoslovak companies to trade directly with foreign counterparts.

The original package is set to go to a Cabinet meeting today though officials say it may be postponed until later in the week.

The free market zeal of the Government's economic ministers – Dr Valter Komarek, the first Deputy Prime Minister, Mr Vladimir Dlouhy, the Planning Minister, and Mr Vaclav Klaus, the Finance Minister – has been tempered in the first three months of government by a gathering realisation of the size of the problems facing their country and of the necessity for harsh measures.

Mr Jan Urban, Secretary General of the Civic Forum movement which brought the opposition to partial power, and an adviser to President Havel, said in London last week that the government was "delaying economic reform because it did not want to be unpopular with the people before an election."

Mr Urban said that the next month or two represented an unrepeatable opportunity for radical measures, when people were prepared for sacrifice.

The upcoming economic measures will begin the job of introducing the market into the exceptionally statist Czechoslovak economy. However, harder decisions, as on prices and subsidies, rents and currency are likely to be left until the elections deliver a government with a popular mandate.

Honecker 'expropriated ransom funds'

By David Marsh in Bonn

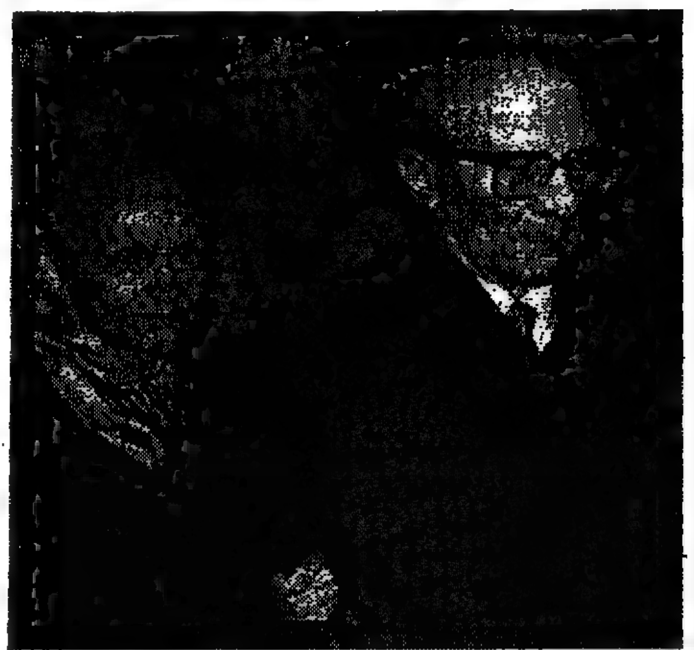
MR ERICH HONECKER, the former East German leader, is under investigation by the East German judicial authorities for having allegedly expropriated DM75m ($44.6m) last year in connection with the regular ransom paid by the Bonn Government for East German political prisoners.

The inquiries, confirmed yesterday by the East German public prosecutor's office, form part of the investigations into suspicions that the former state and party chief was guilty of "high treason."

The prosecutor's office in Berlin underlined yesterday that the investigations into Mr Honecker – who has cancer and is being cared for by an East German pastor – have not been completed.

The allegations of expropriating funds may turn out to be grossly exaggerated. Officials at the Bonn Ministry for Inter-German Relations, which handled prisoner exchanges until they were stopped after the East German revolution last autumn, insist that the political prisoners traded at around DM100,000 a head were exchanged for goods, not for direct cash.

Nonetheless, the East German judicial action will focus attention on a practice which both states have been anxious to keep under cover. It started as long ago as 1963 and subsequently became institutionalised.



Erich Honecker, accompanied by his wife Margot, leaving an East Berlin hospital after treatment in January

Lifting the normal veil of Bonn secrecy over the prisoner exchanges, Mr Manfred Carstens, a state secretary in the Finance Ministry, revealed earlier this month that West Germany paid East Germany DM300m - DM400m a year for the releases.

This figure appears to include both liberation of special category political detainees and also the less costly payments for "bring together families" across the East-West German border.

Officials have been embarrassed over the frankness of Mr Carstens' revelations. More than 30,000 East German detainees were freed over the years as a result of the exchanges. Mr Ottfried Hennig, a state secretary in the Inter-German Ministry, admitted at the beginning of the month that the systematic ransoming was one reason for the paucity of significant post-revolution opposition figures in East Germany.

Mr Ludwig Rehlinger, a former state secretary in the Inter-German Ministry, who was a key figure in the exchanges during the 1980s, is believed to have written a book on the practice and to be seeking approval to publish it.

Mr Wolfgang Vogel, the East German lawyer who was for years Mr Rehlinger's intermediary, is helping to defend Mr Honecker during the judicial inquiry now proceeding in East Berlin.

- East Germany's interim Prime Minister, Mr Hans Modrow, said yesterday he would lead the refashioned Communist Party in elections next month after all, writes Leslie Colitt.

He disclosed his candidacy to a party congress in East Berlin, which approved a change of name from Socialist Unity Party to the Party of Democratic Socialism. Page 4

Forbes, collector of adventures, dies at 70

By Roderick Oram in New York

MALCOLM FORBES was not a shy man. His passion for life was matched only by his flair for publicity and an unwavering commitment to the American way. He named his private jet Capitalist Tool.

The US publisher, a voracious collector of adventures and treasures, died in his sleep of a heart attack on Saturday morning.

He had celebrated his 70th birthday last summer with a $2m party at his palace in Morocco. Hundreds of the rich, famous and powerful from around the world had descended on Tangier in a pair of rented 747 airliners and flocks of private jets.

Assailed by some for his conspicuous consumption, Forbes rode the updraft of publicity with the same deft touch he piloted his hot air balloons in numerous derring-do flights the world over.

His last public event on Friday typified a zest which landed him in society columns more often than the business pages: he had hosted at his London home a bridge tournament pitting US tycoons against British MPs and peers.

Mr Forbes flew back to the US in his private jet, arriving at Timberfield, his New Jersey estate, at 5.30am Saturday. He asked to see Dr Oscar Kruesi, his doctor and friend, later in the day. His houseman looked in on Mr Forbes early in the afternoon and found he had died in his sleep.

Born in New Jersey in 1919, Mr Forbes was the third son of Bertie Forbes, a Scottish immigrant, who founded Forbes magazine in 1917. A distinctive and influential monthly magazine, it reflected the spirit of Bertie, Malcolm and in recent years Malcolm Jr. The magazine has been the bedrock of the Forbes fortune.

Famous for its annual league table of the world's wealthiest people, the magazine was always scrupulously circumspect about Mr Forbes' own fortune. He said other rich people could tell tax collectors they were victims of inflated estimates by his researchers. Any number attached to his name, though, would ring of insider truth. Outside estimates of his wealth range from $500m to $1bn.

He inherited the magazine on his father's death in 1954. His career as businessman, socialite and collector began in earnest. Today, Forbes' headquarters in Manhattan is also a museum for some of his most prized objects.

While Forbes and other publishing ventures blossomed under his guidance, it was his recreational activities, particularly motor-cycling and ballooning, that caught the public imagination.

"People think you're eccentric if you ride a motorcycle. Unless you're poor. If they're poor, they think you are nuts," he once said in an interview.

Always ebullient, friends said he was happiest gathering a group together for an adventure somewhere in the world, whether on bikes, in balloons or in his luxury motor yacht.

THE LEX COLUMN

The meaning of life for the banks

Lloyds Abbey Life's good results last Friday said one thing about Europe's vogue for banking and insurance tie-ups. Its share price since its creation in late 1988 says something else.

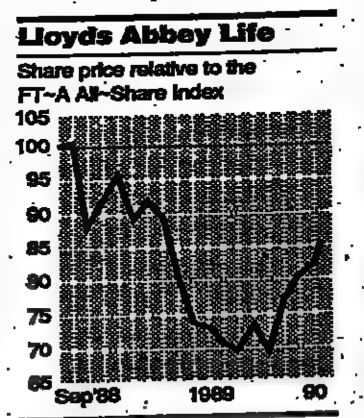
From this case and some others, like that of France's Crédit Agricole, it seems incontrovertible that when an in-house life insurer goes to work on a bank's captive customer base it can build market share rapidly and at low cost. The poor performance of Lloyds Abbey's shares, since Lloyds Bank took 57 per cent of Abbey Life without a proper bid, is equally worth pondering.

It stems partly from the vanishing of the bid premium from Abbey's share price. The other reason is that by folding a finance house and its estate agencies into Abbey to make Lloyds Abbey Life, Lloyds created a stock that was largely a UK interest rate play. This is where the whole issue gets slippery.

Operationally, UK data suggest that selling via a bank branch can give a life insurer a return on equity of 25 per cent or so, compared with little more than a third of that via a broker. Lloyds Abbey is still a long way from matching Crédit Agricole's Predica life assurance subsidiary, which went from zero to 11 per cent of the French life market in three years.

But Lloyds Abbey has already edged its UK market share up from 3.8 per cent to 4.1 per cent, and the sales staff it uses to tap Lloyds's customers are selling five times the industry norm.

The ambiguities come from the way the character of banking and insurance profits differ, so that combining them may not always be as good an idea as it looks. In 1989, falling earnings at Lloyds Bowmaker, the finance house, took a little of the shine off Lloyds Abbey Life. It can work the other way round, too. Bankers newly enamoured of life assurance should look at some 1970s share price charts and see what inflation does to insurers.



Eurotunnel

The Channel Tunnel may have survived its latest crisis, but some in the market have started to worry whether the five UK contractors will need to make provisions for potential losses on the contract. There are two obvious elements of exposure: the lump sum payments on building the terminals and the agreement on tunnelling overruns. On the former, there is a £400m ($680m) gap between the final cost estimates of Eurotunnel and TML.

Over the next few years, that gap will be reduced by argument or, if necessary, by arbitration. Apparently, there will be no big decision on the whole amount, just a series of smaller decisions. That seems likely to ensure the eventual extra costs to be borne by the contractors will be somewhere between zero and £400m.

On the question of tunnelling cost overruns, assessment is tricky. The contractors' camp says it is happy with the current ceiling; but this is a project where costs have already jumped 50 per cent. In construction terms, though, the project is still at an early stage - only a quarter of the costs have been incurred — and for the contractors to provide for further rises at this stage would do little to bolster either banks' or shareholders' confidence ahead of a £1.5bn funding exercise.

For the moment, the contractors say that they can make a profit on the project. So why make provisions? Given the contractors' exposure to the housing market, investors may currently have plenty of reasons to avoid the shares anyway.

Globe/Electra

Strategically, Globe Investment Trust's sale of its holding in Electra makes sense. The sector has been tidying itself up over the last decade and this was one of the last substantial crossholdings. And it made little sense for a large general trust to concentrate eight per cent of its portfolio in one holding.

But there are some logical quirks about Globe's method of disposal, however laudable it may to offer shareholders first bite. Shareholders are being sold what they already own on the implicit assumption that Globe can invest the proceeds in a better vehicle than Electra. Why then should Globe's shareholders find Electra shares appealing? Globe says it will increase its own unlisted portfolio; but shareholders might well feel that Electra has more experience in this field and is likely to succeed better at it.

There is obviously some value for Globe shareholders in owning their Electra shares directly rather than indirectly. But otherwise the value is hard to grasp. The discounted issue price may appear to make the Electra shares more attractive, but Globe's net asset value falls accordingly. Electra's shares dropped to only 5p above the offer price yesterday, indicating that the market also expects the issue to create an overhang.

Admittedly, Globe's alternatives – a free issue or a placing - would also face objections. But the problem is the inevitable result of Globe having allowed a single investment to bulk so large in its portfolio.

Brewing

The haggling between Elders and Grand Metropolitan over their pubs/breweries deal seems to have reached a curious kind of public stalemate. But there seems little doubt that GrandMet is in the stronger position. Last week's results from Elders confirmed the impression of strain being suffered by Harlin in financing its investment, at a time when Mr Elliott is also finding difficulty in getting the right price for his Scottish & Newcastle stake in the London market. The deal also looks less important to GrandMet in terms of scale; even an outright sale of the breweries would fetch less than the sale of Alpo in the US.

On the other hand, the market may take less kindly to suggestions emanating from Australia that an Elders/GrandMet deal would involve an equity swap. The whole point of asset disposal from the market's viewpoint is that GrandMet should reduce its debt mountain.

In addition, any substantial link with the tangled Elliott empire would make GrandMet's business that much less transparent. Granted, last week's results from Elders showed strong growth in brewing. But that was helped by the completion of the brewery merger in Canada and by the weakness of Elders' one big Australian competitor, Mr Alan Bond. It is not to be supposed that Mr Elliott is just another busted Australian entrepreneur; but his recent record is patchy, all the same.

Bush asks Kaifu to review trade friction

By Robert Thomson in Tokyo

MR TOSHIKI KAIFU, Japan's Prime Minister, has received a sudden invitation from President George Bush to visit the US this week to discuss growing trade friction between the two countries and developments in north Asia.

Before the invitation, US officials had expressed disappointment at the lack of "political will" in Tokyo to redress the enduring trade imbalance, and the lack of new ideas produced by Japanese negotiators at talks to remove "structural impediments" to trade.

Mr Kaifu had been expected to visit the US in late April or May. But during a telephone call from Mr Bush on Friday night, the Japanese leader was congratulated on his election win last week and invited to meet the president in Palm Springs, California, this Friday.

The rush visit will come at the end of a week in which Mr Kaifu has to announce a new cabinet - for which political manoeuvrings continued yesterday - and deliver a major policy speech to the Japanese parliament.

Japanese government officials are concerned that debate over the country's $49bn bilateral trade surplus could enter a new phase of confrontation in coming weeks. The Structural Impediment Initiative (SII) talks and outstanding actions under the punitive Section 301 of the US Trade Act are soon to reach a climax.

The third round of SII talks ended in Tokyo on Friday, with US officials expressing frustration with the "prospect of minimal further action" by Japan to reduce the surplus. They warned that Japan could be at the mercy of a hostile US Congress unless concessions were made.

On trade, Mr Bush is expected to ask Mr Kaifu to oversee changes to the complex distribution system and land use regulations, and to tighten anti-monopoly laws to ensure that US companies are able to compete in Japan.

But the suddenness of the trip and the busy political diary in Tokyo this week will make it difficult for Mr Kaifu to produce any new trade policies.

During the talks the president will explain last week's announcement of planned US troop cuts in Japan, which came as a surprise to the Japanese Government. He is also likely to offer more support to Tokyo in its dispute with the Soviet Union over ownership of the South Kurile Islands, or, as Japan calls them, the Northern Territories.

Japanese officials are worried that Mr Bush and other senior US officials have been focusing on events in Eastern Europe to the detriment of their interest in Asia. Tokyo will be looking for reassurance that the bilateral relationship's importance remains undiminished by the trade dispute.

Grasping the skills to negotiate, Page 17

Saatchi intends to keep core business

By David Owen in London

SAATCHI and Saatchi, the UK advertising agency, is prepared to listen to "any reasonable proposition" to bolster its prospects in the wake of last week's collapse of confidence in the company.

This might include seeking partners or outside capital but not selling or diminishing its core business. "We are reviewing the business root and branch," the company said last night.

The company announced on Friday that profits were "unlikely to achieve current market expectations" after completion of a review of its operations by Mr Robert Louis-Dreyfus, who last year replaced the Saatchi brothers as chief executive, and Mr Charles Scott, the new finance director.

This announcement came after its shares had fallen by almost a third in two days to 138p. Sentiment was also hit by renewed publicity for a US shareholder lawsuit alleging that adverse information on the company's prospects had been concealed.

Saatchi said yesterday that cost controls and budgeting had in the past gone awry and were at the root of its difficulties. "That has been brought under control," the company said. The business continues to perform well at a revenue level, in spite of the slowdown in advertising spending, it said.

"The advertising businesses are the best in the world as measured by any measure you care to take. These are impeccably good businesses," it said.

Saatchi also confirmed that it was considering retaining an equity stake in some of the management consultancy businesses that it put up for sale in June. It wants to facilitate their disposal on acceptable terms in a difficult environment for selling companies.

"The company will cut its cost according to the cloth of the market; if it needs to retain a stake it will," the group said.

It emphasised, however, that the disposal of management consultancy operations - in order to concentrate on the communications businesses - remained a priority.

Hay Group, which contributes roughly half of Saatchi's consulting revenues, said last week that it hopes to unveil a management buy-out towards the end of next month.

Hay said negotiations with Saatchi, which first sprang to prominence in the 1980s as a result of its campaigns for Britain's Conservative Party, have "progressed significantly." Observers have put a price tag of £50m ($85m) on the business.

Time at least appears to be on the side of the agency as it strives to restructure. The Euroconvertible bond, which the company described yesterday as the "brick wall," is not redeemable at a cost of £210m until 1993. That may afford the group a window of three-and-a-half years to get its house in order.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	14	57	Dubrovnik	S	16	61	Malta	F	16	12	Rhodes	S	17	63
Algiers	C	17	63	Edinburgh	R	7	45	Manchester	R	8	46	Rio de J'o	–	–	–
Amsterdam	F	11	52	Faro	S	17	63	Manila	–	–	–	Rome	F	15	59
Athens	S	20	68	Florence	C	13	55	Melbourne	C	19	66	Salzburg	S	17	63
Bahrain	C	19	66	Frankfurt	C	15	59	Mexico City	–	–	–	San Francisco	F	9	48
Bangkok	–	–	–	Funchal	F	16	61	Miami	S	17	62	Seoul	S	3	37
Barcelona	C	14	57	Geneva	S	16	61	Milan	S	18	65	Singapore	F	32	90
Beirut	–	–	–	Gibraltar	S	17	63	Montreal	Sn	-15	5	Stockholm	C	7	45
Belfast	C	7	45	Glasgow	R	8	46	Moscow	C	7	45	Strasbourg	F	16	61
Belgrade	S	19	66	Guernsey	R	8	46	Munich	S	19	66	Sydney	F	25	77
Berlin	F	13	55	Helsinki	C	5	41	Nairobi	F	27	81	Taipei	–	–	–
Biarritz	C	13	55	H. Kong	R	12	54	Naples	C	14	57	Tangier	C	16	61
Bombay	S	29	84	Innsbruck	S	13	55	Nassau	–	–	–	Tel Aviv	S	15	59
Bordeaux	C	14	57	Inverness	F	8	46	New Delhi	S	18	64	Tenerife	S	23	73
Brussels	C	10	50	[illegible]	–	–	–	New York	Sn	-3	27	Tokyo	R	11	52
Budapest	S	15	59	Istanbul	S	10	50	Nice	C	13	55	Toronto	S	-17	1
B. Aires	–	–	–	Jakarta	–	–	–	Nicosia	S	17	63	Tunis	S	17	63
Cairo	F	18	64	Jersey	R	10	50	Oporto	F	14	57	Valencia	S	14	57
Cape Town	S	21	70	Jo'burg	F	23	73	Oslo	S	8	46	Venice	Fg	8	46
Caracas	–	–	–	Lima	–	–	–	Paris	R	11	52	Vienna	S	15	59
Casablanca	C	17	63	Lisbon	S	15	59	Peking	S	4	39	Warsaw	S	17	63
Chicago	S	-16	3	London	C	11	52	Prague	S	17	63	Washington	S	-6	21
Cologne	C	13	55	Los Angeles	F	14	57	Reykjavik	C	0	32	Zurich	S	16	61
Copenhagen	–	–	–	Luxembourg	C	13	55								
Corfu	S	19	66	Madrid	S	14	57								
Dallas	S	8	46	Majorca	F	16	61								
Dublin	R	9	48	Malaga	S	16	61								

Readings at mid-day yesterday
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

US warning on insurance

Continued from Page 1

laid on regulatory weaknesses in the US, the report notes: "The process of screening 'names' for good character and financial worth has not included strong background checks or regular financial reports on individual syndicate members, and has not prevented persons such as Carlos Miro from using his status as a Lloyd's 'name' as an advertisement of his respectability."

Mr Miro and his companies are being sued by the Louisiana state Commissioner of Insurance for $38.5m, while Mr Miro is the subject of pending investigations by the US Internal Revenue Service and the Immigration Naturalisation Service. The sub-committee has asked the US Attorney-General to "investigate and consider prosecution for any possible criminal violations of federal laws."

Failed Promises, Insurance Company Insolvencies: A Report by the Sub-committee on Oversight and Investigations of the Committee on Energy and Commerce of the US House of Representatives.

First Boston admits exposure

Continued from Page 1

of taking on some of the company's bridge loans. This intensified speculation that First Boston needed to sell part of its bridge loan portfolio to raise cash. There were widespread reports that First Boston had missed interest payments to Crédit Suisse and was planning redundancies.

First Boston denied the rumours, although it did say that it planned "a disciplined look at our cost structure to ensure that we are as lean as possible."

FINANCIAL TIMES
COMPANIES & MARKETS
Monday February 26 1990

INSIDE

Moving philosophy

It is a well-known, rags to riches story. In the seven years between privatisation of the freight company, NFC, and its stock market introduction last February, original investors — the majority of whom were company employees — saw the value of their initial stake rise about 100-fold. But the man who presided over the transformation of NFC is retiring. David Owen talks to Sir Peter Thompson (left) about his unique management philosophy. Page 20

Rethinking home remedies

Things are not going well for the American industrial policy lobby. It has failed to persuade the Bush Administration that the competitive ills of US industries can be cured by a dose of dirigisme laced with lavish government subsidies. Now, one of the movement's leading lights has issued what amounts to a public recantation. Guy de Jonquières reports. Page 24

Banks battle for interest

The war is on. Spain's big banks are sparing no expense in the guerra de los pasivos, or deposits war. Big colour inserts in the Sunday newspapers herald the latest offensive by Banco Espanol de Credito as it begins paying up to 13 per cent interest on current accounts. Banesto's new account finally puts paid to the long-standing agreement between Spanish banks not to attack each other by breaking their informal interest rate cartel. Page 23

Market Statistics

Companies in this section

UAP opens its doors to foreign investment

George Graham reports on a landmark rights issue

Today Union des Assurances de Paris (UAP) is launching the largest rights issue the Paris stock exchange has ever seen.

Jean Peyrelevade, UAP chairman, made his reputation as one of the architects of nationalisation in the first socialist government in 1981-82, but he is now presiding over what has been seen by many as at least a partial privatisation.

France's largest insurance company is tapping the capital markets for FFr6.57bn ($1.2bn) as part of a capital increase totalling FFr10.5bn.

UAP's haste is barely concealed. The opening of the offer coincides with the application of new insurance legislation, which, besides clearing up the French insurance code, for the first time relaxes the laws controlling the ownership of shares in state-controlled insurance companies.

Whereas other state-owned companies have been allowed to issue only non-voting certificates of investment, insurance companies have always had a small float of shares, originally issued to employees. These shares could, until today, only be bought by individual French investors and a handful of specified institutions.

By organising a FFr2bn international tranche for its equity offering, UAP is helping to avoid an unseemly rush by foreign investors to build up their insurance lines, now that this is authorised.

Launched on Friday, the same day that Renault announced its plans to swap share stakes with Volvo, UAP's FFr625 a share offer seemed to many the final confirmation that privatisation, albeit partial and disguised, was back on the agenda for the socialist government.

The motives of UAP's new issue, however, are very different to those that inspired the privatisations carried out by Mr Edouard Balladur when he was finance minister from 1986 to 1988. Not only does the current Government intend to stay firmly in control of UAP, it also has a firm, if not always unanimous, idea of the role it wants the insurance group to play in the development of the French economy.

Mr Peyrelevade, too, has retained a strong sense of the French national interest, even though he has also proved his readiness to say no to the Government when the interests of his company require it.

In launching his company's capital increase on Friday, however, he laid all the emphasis on UAP's role as an insurer.

"We are insurers. We do not by any means have the intention of becoming a financial conglomerate. We want to be a universal insurer, present in all segments of the insurance business and present internationally, especially in Europe," Mr Peyrelevade said.

UAP commands about 12 per cent of the French insurance market, but its share in Europe is only 1.5 per cent. Mr Peyrelevade's goal is to double that European market share to equal Allianz, the West German market leader.

The group has already undertaken a series of acquisitions which have taken it some way down the road towards this goal.

In the first place, it has taken outright control of several small and medium-sized companies, such as Allsecures in Italy and Gesa, the Spanish assistance and emergency services group. The purchase of Gesa will place UAP second in the world in the assistance sector, behind Europ Assistance.

It also merged its reinsurance subsidiary last year with Scor, the leading French reinsurance company, and now holds 40 per cent of this company.

But the keystone for UAP's future development is the sequence of minority stakes it has built up in some of Europe's largest insurance groups. In 1987, it took 31.88 per cent in Royale Belge, the second largest Belgian insurer. In 1988, it acquired 19.2 per cent of the UK's Sun Life, a stake increased at the end of 1989 to 25 per cent; UAP now has a crossed option agreement with TransAtlantic, the group headed by Mr Donald Gordon which has 29 per cent of Sun Life.

The largest of UAP's deals took place in December, when it agreed to pay FFr14.4bn for a consolidated stake of 34 per cent in Groupe Victoire, the insurer which had just been taken over by Compagnie Financière de Suez, the financial conglomerate, in France's largest-ever takeover battle.

Besides Victoire itself, an asset-rich French insurer, the stake gives UAP an interest in Colonia/Nordstern, the number two in West Germany behind Allianz, as well as the smaller Dutch insurer Nieuwe Rotterdam. The deal also links it with Baltica of Denmark and Dai-Ichi Mutual Life of Japan.

Suez remains the controlling shareholder, and has said it plans to keep a 50 per cent consolidated stake in all circumstances, but UAP is clearly in a very strong position at the centre of this web of holdings.

Mr Peyrelevade said on Friday that he had no plans for more operations of the same size as the Victoire deal, but that UAP was still interested in small to medium-sized operations, worth perhaps FFr1bn or FFr2bn, in every sector of the insurance business. In any case, he has already put into place the building blocks which could create an empire fit to compete with Allianz.

Jean Peyrelevade is presiding over what appears to be at least a partial privatisation

Problem: How to be boring

American experience may be a guide to German economic prospects, writes **Anthony Harris** from Washington

Things have come to a pretty pass when a senior public official cannot rely on being boring when he intends to be. It is a racing certainty that Mr Alan Greenspan travelled the 20 blocks from the Federal Reserve to Capital Hill last Tuesday intending a kind of monetary lullaby. Yet after a restatement of familiar stuff on Tuesday, he saw a mini-collapse of the Tokyo market on Wednesday, and by Thursday he was using his second Congressional appearance to disown some of the things he had not actually said on his first visit.

Consider the background. Drexel Burnham had collapsed only a few days earlier, and although the market professionals took this news with a knowing shrug, small – and foreign – investors might be nervous. Since all the doom scenarios for the US economy have defined the final, deadly threat as a run on the dollar, it is not a risk Mr Greenspan would have courted.

Nor did he. He said nothing to suggest any change in US policy, pointing out that the recent revival in car sales and house building had allayed fears of a recession. He explained that the January inflation figures would look awful without meaning much. He also pointed out that interest rates are set internationally, and that German rates are tending to rise.

Not a word of this can have surprised anyone who takes an interest in such matters. Then came Tokyo, and a lot more anodyne statements, which can be summed up as: "Anything I said two days ago to suggest that the glass might be half empty should be taken to imply that it might be half full."

One might say that he did succeed in being boring in the end, but it took two attempts.

And yet, when you look at the evidence, the underlying mood appears quite robust. The fall in Tokyo was not the start of any chain reaction, but well contained. That suggests that the problem is one of Japanese rather than of general confidence. Further, Wall Street absorbed the chairman's misreported gloom with much the same calm as it had earlier figures and surveys billed in advance as key market numbers. Most impressive, though, is the amount of gloomy talk now to be heard. Market comment is so generally bearish that a technician must believe gloom is fully discounted, and that prices can only go up.

Enough of this line of thought. If you are already a contrarian, you have no doubt identified a great buying opportunity in the tea leaves. If you are not, the last thing I want to do is to convert you. What is possbly more interesting, and certainly more unusual, is a disagreement between various analysts about the economic fundamentals, which are usually fairly non-controversial, rather then the meaning of the market charts.

The disputed questions nearly all concern the D-Mark. Will the prospect of German unity raise German inflation? Will it drive the D-Mark up in exchange markets, or depress it? Will Germany's European partners try to keep station with a D-Mark that is on the move internationally? Would such a monetary convoy be a wise manoeuvre, or a mistake? And if the same questions are asked about German's non-European partners in the Group of Seven, are the answers the same, or different?

In the US, the forecasting questions about the D-Mark get fairly confident answers, even though they appear to contradict one another: inflation will go up, and so will the D-Mark. In Europe, some take the same line, but others argue that German inflation will go up and that the D-Mark will therefore be weak.

How should non-Germans react to either scenario? The EMS is generally expected to attempt a show of unity, but there seem to be conflicting notions about the right line for the US. Some senior Treasury officials agonise about future G-7 meetings: can the US keep up with the Schmidts without risking a recession? And if the risk looks pressing, what happens to the international co-ordination process.

And what is a reader to make of these questions? To start with the apparent contradiction: is it likely, or even possible, that the same development can increase inflation in greater Germany, and yet make its currency stronger? The answer seems to me to be that it could easily happen in theory, but is, in present circumstances, unlikely in practice.

This is not to agree with the European high-inflation, weak D-Mark theorem, but to reverse it: it looks likely that reunification will lead to a strong market and low German inflation. This is because the process seems likely to produce, though for very different reasons, a pattern similar to the Reagan experience: inflows of capital driving up the currency, immigrant labour holding down domestic costs.

Under Reagan, the capital market inflows were attracted by high interest rates, as the Fed struggled to offset the impact of a huge fiscal expansion; in Germany, it is the promise of commercial profit which will attract both financial market and real capital inflows. This suggests that the Bundesbank will not be compelled to maintain high relative interest rates.

Meanwhile, the impact of cheap labour should reduce cost pressures be enough to ensure that quite normal nominal interest rates in nominal terms are high in real terms. High real rates are required, as well as high expected investment returns, to attract all the capital that Germany and its ex-Communist neighbours will demand.

The tension, on this analysis, will arise over the exchange rate: for while low inflation raises any given interest rate in real terms (it increases the real return), it lowers any given nominal exchange rate in real terms (low costs make the German economy more competitive). Yet high capital inflows mean a current account deficit. (If you find the relation between inflation and real exchange and interest rates confusing, you are not alone: try again with a cold towel).

All this points to an odd conclusion – that Mrs Thatcher may for the first time be right about the EMS. A major adjustment seems to be needed to allow for the change in economic and political circumstances. You do not have to decide whether you are a monetarist like Sir Alan Walters, who probably now argues that we should avoid tying ourselves to an inflation D-Mark, or with this column, which argues that we need to assist a huge switch in our current account with the Germans. All of us can probably agree that for once the markets are probably wiser than our theories, and may even teach us who is right.

Economics Notebook

Fitting Germany into Europe

THE PROSPECT that monetary union between the two Germanys may upstage, even upset, longer-planned monetary union among the Twelve has produced signs of rising panic among some people in Brussels, notably Mr Jacques Delors. The Commission President has warned darkly that 30 years of work on the construction of Europe might be "sidelined."

Others take a more phlegmatic view, notably Mr Henning Christophersen, the Danish commissioner who is in charge of Brussels' study on the impact of German monetary union (now dubbed Gemu) on the Community's own plan for economic and monetary union (EMU). He is confident the Community could manage both Gemu and EMU.

This study of the consequences of Gemu for EMU – one of several reports which the Commission is to present to EC leaders at their special "German" summit in April – has recovered from a shaky start, when a first paper was leaked to the press. "We have now set up good relations with people in the finance and economics ministries in Bonn, and in the Bundesbank," says Mr Christophersen; adding that "we cannot do this study without very close contacts with the German authorities." Bonn may have little idea about the true picture of the East German economy, but Brussels has even less.

The respective timetables for Gemu and EMU will dovetail, not clash, Mr Christophersen believes. He reckons Gemu will be come about "rather quickly" – within two years, he guesses. EMU is on a longer track. Brussels will give finance ministers a preliminary cost/benefit analysis of EMU next month and foreign ministers a report on institutional reform in April. By June the Commission will finalise its recommendations on EMU, in plenty of time for the Intergovernmental Conference (IGC) to start at the end of the year. Allow 1991 for the IGC negotiation, 1992 for treaty ratification, and the first half of 1993 for implementing legislation to set up the European Bank, says Mr Christophersen. By the time, therefore, that the Community starts the tricky gear shift from the European Monetary System (EMS) to EMU, about mid-1993, Gemu will have been up and running for some time.

Mr Christophersen sees strong mutual interest by Bonn and its EC partners in the success of Gemu and EMU. The weaker argument relates to West Germany's interest in EMU. The Bundesbank's reluctance to share its monetary sovereignty with EC partners in an EMU arrangement may, if anything, increase as it becomes the monetary authority for even more territory.

On the other hand, some in Brussels see a silver lining in the speed towards Gemu; if politicians can over-rule Mr Karl Otto Pöhl, the Bundesbank president, by accelerating the pace of Gemu, they can do the same to him on EMU. Certainly, Mr Christophersen believes that "as the single market becomes more integrated, it will become more important for Germany to have responsible economic policy conducted in other EC states, through EMU."

What is very clear is the nail-biting interest of Bonn's EC partners in Gemu's success. Mr Christophersen believes that Gemu will boost West German growth even above its astonishing rate of 5 per cent last year. An extra percentage point expansion in West Germany lifts the whole Community growth rate by half a percentage point. Some Mediterranean countries are frightening themselves, he says, with "static analyses" claiming that growth in the EC will move north and east; but on any "dynamic" analysis, Gemu should be a tide that will carry all EC boats higher, Mr Christophersen claims.

But a botched merger between the two Germanys could severely disrupt the EMS, destabilise its D-Mark anchor and cause a severe drain on the EC budget. The irony, however, is that while Bonn can influence – even determine – the shape of EMU, its Community partners have no formal say how Gemu takes place.

Of course, Brussels has its views. The leaked Commission paper concluded that an offer of immediate, full union, perhaps at one D-Mark for one Ostmark, might be "a sign of irreversibility" of the merger, but would irrevocably expose West Germany to any setbacks in East Germany and deprive the latter "of exchange rate changes during the catching-up process." Better, said the paper, to "combine the advantages of exchange rate adjustments with the credibility gains of Bundesbank involvement" and to create a "DM-East", issued and controlled by the Bundesbank, with its parity to the real D-Mark appreciating as East Germans become as productive as West Germans.

Mr Christophersen says he trusts the Bundesbank – "a very skilled central bank" – to find the right formula for Gemu. But, in the absence of EMU treaty obligations, the West German authorities are legally free to do whatever they want. No wonder there is a sense of panic as well as phlegm in Brussels.

David Buchan

THIS WEEK

AS FAR as economic indicators go, Wednesday's trade figures are set to hog the limelight this week. But neither the bond nor equity markets are focused on them.

They are anticipating that the slew of economic indicators from Japan and West German consumer price figures – expected today or tomorrow – will provide much-needed clues about prevailing global uncertainty surrounding inflation and interest rates.

German price data has been encouraging so far. The stronger D-Mark and weaker commodity prices have managed to hold down import prices, while money supply growth targets have been met.

The markets are also hoping for some resolution of the public squabble between the Japanese Finance Ministry and the Bank of Japan. This is weakening the Yen and doing nothing to settle the quavering Japanese equity market, which saw two big falls last week.

In the UK, fears about global inflation are also building up, and worries about currency unification in the Germanys persist.

Nevertheless, the current account deficit will dominate trading floors.

The trade deficit is expected to continue to shrink – as it has done for the past five months – as sterling strengthens and manufacturers find overseas markets for their goods. But some are now suggesting that export volumes are too good to be true, although higher mortgage rates will help depress home consumer spending.

Analysts are singling out the sharp improvement in the non-oil trade deficit, and the volume of non-oil exports, which rose 15.1 per cent between the fourth quarters of 1988 and 1989. The invisible surplus, however, has deteriorated over the past year due to growing interest payments on the Government's borrowing.

Tomorrow's inflation figures for France are expected to show 0.4 per cent growth on December, and 3.5 per cent year-on-year. Inflation would be stronger but for two factors – falling primary material prices, and the strong French franc. Food prices also saw an unseasonal fall in January.

Other notable events and statistics, with consensus forecast figures from MMS International, the financial research company, in brackets, include:

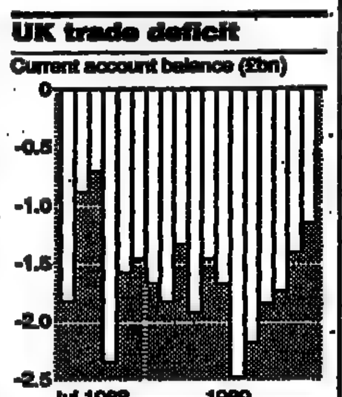
Tomorrow: US advance report on durable goods for January (minus 2.5 per cent). Merchandise trade, fourth quarter. Japan, personal income for December, personal consumption for December, retail sales for January, industrial production for January. France, consumer price index, final, January.

Wednesday: UK new vehicle registrations, US GNP fourth quarter preliminary (0.4 per cent), agricultural prices. Two-year Treasury Note auction. Australia, net and gross foreign debt figures. Japan, trade balance.

Thursday: US construction expenditure for January, personal income for January (0.6 per cent), Unemployment Claims, M1 for week ending February 19. Australia, current account.

Friday: UK Official Reserves (fell $197 in January). US Leading Indicators for January, new home sales. Japan, trade balance.

UK trade deficit



Interest charges peg profit improvement at Alumasc to 8%

ALUMASC GROUP is another company which has found its growth pulled back by high interest charges.

In the half year ended December 31 1989 it lifted turnover by 44 per cent to £25.28m, and operating profit by 25 per cent to £2.51m, but saw the pre-tax outcome rise only 8 per cent to £2.22m (2.06m).

It had to suffer interest charges of £288,000, against an income of £62,000. The group makes products for the brewing and building industries, and produces precision components.

Mr John McCall, chairman, said much of the increase in sales reflected the inclusion of a full half of Grundy, but demand for aluminium containers was strong and building products achieved excellent results.

Although losses were incurred on stainless steel keg production, considerable progress was made and he looked for a contribution by the end of the year.

Earnings in the period rose to 11.7p (11.4p) and the interim dividend is stepped up to 2.85p (2.65p).

Tribune denies Maxwell talks

By David Owen

THE CHICAGO-based Tribune Company yesterday responded to reports that Mr Robert Maxwell might be seeking to buy the New York Daily News by stating categorically that no talks regarding such a sale were taking place with the UK-based publisher.

"Unequivocably, we have had no negotiations nor are we in any way conducting negotiations, discussions or dialogue with Robert Maxwell or any member of his organisation about the sale of the News", the company said.

Tribune is in negotiations with unions, ahead of the expiry of contracts in March, concerning the need to reduce the newspaper's cost structure if necessary investments to expand facilities and equipment are to be made.

The newspaper, which boasts a circulation of some 1.25m copies on weekdays and 1.62m on Sundays, has made net losses of $115m on revenues of $4bn over the past 10 years.

BOARD MEETINGS

TODAY

Interims- Alpha Estates, Isotron.

Finals- Akzo, Appleyard, Caldwell Invs., Chieftain, Conroy Pet. & Natural Res., Cooper (Alan), International Colour Management, OCE (UK), Vickers, Williams Hldgs.

FUTURE DATES

Interims-

Raine Industries	Mar. 6
SIBIT	Feb. 27

Finals-

ASD	Mar. 27
Baynes (Charles)	Mar. 8
Continental & Ind. Trust	Feb. 27
Croda Intl.	Mar. 22
Guinness	Mar. 22
Hawker Siddeley	Mar. 28
Kleinwort Benson	Mar. 15
Macfarlane	Mar. 29
Trinity Intl.	Mar. 19
Unidare	Mar. 5

Substantial pay-off for Ferranti's former chief

SIR DEREK Alun-Jones, who on Friday resigned as chairman and chief executive of Ferranti International, the defence equipment group, has received a substantial pay-off.

His resignation came six months after Ferranti revealed it might lose £215m as a result of an elaborate fraud in a US subsidiary.

Ferranti yesterday refused to give any details but confirmed: "a contractual settlement has been made, his contract has been honoured."

In the year to the end of March 1989 Sir Derek's pay jumped by 24 per cent, from £154,000 to £191,000.

It is understood his contract still had some two and a half years to run and, at the 1988-89 rate of remuneration, he would have been entitled to about £477,500.

A settlement of this size would certainly upset shareholders who have had to do without dividends, and have seen the price of Ferranti's shares fall to about one-third of their previous level in the past year.

However, Mr Eugene Anderson, the Texan who replaced Sir Derek on Friday, insisted it was in shareholders' interests to resolve the issue of the former chairman's departure as quickly as possible.

Headland in talks

Headland Group is in talks with the management of Wootton Jefferys Consultants concerning a buy-out.

Why so few followed the NFC line

David Owen gets Sir Peter Thompson's views as he prepares for retirement

SIR PETER Thompson stares into space in the compact Fitzroy Square office of NFC, within yards of the London Foot Hospital, and reflects on running an employee-controlled company.

"We have not had enough companies follow the general philosophies and values that we have tried to bring into NFC since we bought it", he says with a soft Yorkshire inflexion. "Having pushed over the legal barriers, I suppose naively I thought there would be a flood of companies wanting to come through. The reality is that there have not been all that many which I think is sad."

Sir Peter presided yesterday over his last agm as chairman of the freight hauling company, which he took out of the public sector in 1982 and has since transformed into a profitable bastion of employee share ownership and participation.

It is a well-known rags-to-riches story. In the seven years between NFC's privatisation and its stock market introduction last February, original investors saw the value of their initial stake rise about 100-fold. Pre-tax profits for the year to September 30 were ahead 34 per cent to £90.2m.

In a nutshell, NFC has provided the strongest circumstantial evidence to date in the fast-growing and labour-intensive services sector of a link between employee control and superior profit growth. And yet, as Sir Peter says, few companies have opted to follow in its footsteps – even in an era of management buyouts, any one of which could have been structured to include employees. Why?

The first of several possible explanations, he posits, is the deferential style of management that is required. "It is not comfortable to have to go out and stand before your shareholders/employees and say: 'This is what we have done with your company, are you satisfied with it?'"

In addition, he feels, even if the performance-related fillip that can accrue from an employee buyout is accepted, "the kind of entrepreneur who is prepared to lead a buyout does not want to share among hundreds of people the decision-making process or the rewards." The head of an employee buyout company also has to forego, for the most part, the right to wheel and deal in companies. "Almost the only way you can get out of a business", says Sir Peter, "is for the people working in that business to say: 'We want to go because it is a better home you are putting us into.'" By the same token, while NFC has made no shortage of acquisitions in recent years, "you cannot be making mega-takeovers and splashing equity all over the place."

There is too the problem of quantifying the benefits directly attributable to employee control. NFC's strong performance is partly due, after all, to the buoyant economy, enlightened strategic management and exploitation of an under-utilised property portfolio. "But", says Sir Peter, "our competitors have enjoyed a good market and we have outperformed them. You have to ask 'what is the extra ingredient ?' and I would have thought it must be something to do with employee involvement - but I cannot prove it."

Since its introduction to the stock market, the NFC culture has changed with the advent of institutions and private individuals onto the shareholders' roster. As Sir Peter prepares to step down, this raises the question of how stable his legacy is: with employees able to deal shares routinely as opposed to quarterly on an internal market is there not a danger that employee control of NFC might slip away?

Following the employee buyout, Sir Peter admits, "one of the spectres at the feast was that what we had done was create a one-generation employee-controlled business to benefit one group of people that were there at the moment."

He asserts, however, that computer models suggest that the status quo can be sustained – if four conditions are fulfilled. These are: that profit-sharing arrangements, whereby 15 per cent of NFC's pre-tax profits are recycled each year, are maintained; that existing shareholders do not sell more than 10 per cent of their shares a year; that NFC's earnings per share forge ahead at a minimum of 15 per cent per annum; and that new employees continue to take advantage of the £500 interest-free loan to which they are entitled to buy stock when they join the company.

Since the introduction, employee control has been reinforced by the attachment of double voting rights to their shares on issues discussed at the agm. This means in effect that a would-be predator has to convince employees of the soundness of his aims.

Sir Peter believes that the double vote provision engineers a much-needed rebalancing of the respective rights of employees and investors in determining a company's future. "I think there is a moral argument that says if someone has got his life, in other words his employment, and he is also prepared to put money into his company, his view of what should happen should be worth more than an institution that has only got its money in."

He feels too that the notion of a double vote for employees may have broader applications in the struggle against what he sees as the excessive concentration of share ownership in Britain. "One does wish that the fate of British industry was not in the hands of 30 investment managers; that seems to me to be a concentration of power that is totally undesirable".

If this is to be changed, he argues, "one of the areas in which you have got to have the most chance of succeeding is share ownership of your own company – employee share ownership and so on. And if you are to encourage more employees to own shares, you have to make them feel important." Extending a double vote to employee-held shares might, Sir Peter suggests, be one means of conveying this enhanced sense of involvement.

Collins will shortly publish a book by Sir Peter that, although mainly about NFC, ranges far and wide over his formative years – at 15, we learn, he was an anarchist. "But I was quite a big chap" – and his early career was with the likes of Unilever, GKN and the Rank Organisation."

It discusses the sometimes tough Yorkshire upbringing, with a working mother and invalid father, which helped to form his original judgements and views. It details his gradual disillusionment with the notion of 'nationalisation'.

In it, Sir Peter emerges as a fan of BTR's Sir Owen Green ("arguably the best UK manager of the last 20 years"), of non-executive directors, and of university for all.

Prominent among the institutions which incur his displeasure, by contrast, is the City, which he feels must re-examine the cost and procedures that new companies seeking a stock exchange listing have to suffer if it wants to remain a major financial centre.

"Nobody", he says, "is cutting into the cost and asking: 'If you have audited accounts for five years, do you need to spend £1m on a long form report or boost the finances of the FT by publishing a ten-page prospectus.'" He also alleges conflicts of interest in the share price-setting process. "The broker's regular customer is obviously not the company coming to the market but the institutions it deals with all the time. Similarly with the issuing house, it gets its money partly from the primary underwriting, so it wants as low a price as it can get."

Sir Peter, 62, does not envisage being idle after stepping down from NFC at the year-end. In addition to the CBI working group, he points to his string of non-executive directorships and a development capital project involving his son as irons in the fire.

And then there are the animals. "My wife has horses and sheep and she will insist I muck out and feed the lambs", he predicts. "In fact, before I saw you this morning I bottle-fed a lamb."

Sharing the Success by Sir Peter Thompson. Published by Collins. Price £15.

James Watson to become chairman

Mr James Watson is to take over as chairman of NFC when Sir Peter Thompson retires at the end of the year, it was announced at the agm held yesterday in the Winter Gardens, Blackpool.

He is currently deputy chairman and was previously finance director. In Sir Peter's forthcoming book he is described as having all the physical attributes of a City man "with a white collar over a striped shirt."

NFC also unveiled a 17 per cent increase in pre-tax profits, from £18.4m to £21.6m, for the 12 weeks to December 23 last. It was achieved with the help of a £500,000 reduction to £2.8m in the funds set aside for profit sharing. Turnover climbed 13 per cent from £331.9m to £373.4m.

The company described this as a "satisfactory" increase despite the difficult economic conditions. Interest costs dropped from £2.7m to £1.5m. Earnings per share rose to 4.3p (3.8p), and a second interim dividend of 1p was declared.

The directors gave a "best view" of £105m pre-tax profits for the current year. In the longer term, the group intends to be generating 40 per cent of operating profits from outside the UK by 1995.

The agm also approved an increase in authorised capital from £22.5m to £36.5m, and a one-for-two scrip issue.

General Cinema interested in BAT department stores

GENERAL CINEMA Corp, the Massachusetts-based conglomerate which owns 60 per cent of Neiman-Marcus group, is understood to be among the 40-odd companies who have asked for sale prospectuses on Marshall Field's and Saks Fifth Avenue, the two US department store chains being auctioned by BAT Industries.

However, BAT pre-emptively dismissed any suggestion that it had reached detailed negotiations with any parties. Prospectuses only went out this month and the short-lists are unlikely to be drawn up before early March.

Reports in the US suggested that General Cinema wants Marshall Field's chairman, Mr Philip Miller, to head its retailing operation. No one at Marshall Field's was available to comment.

BAT has put both Chicago-based Field's and Saks up for sale as part of its defensive restructuring. A series of asset disposals and demergers was announced last autumn in the wake of a £13.5bn bid from Sir James Goldsmith's Hoylake consortium.

Recent reports have also suggested that Mr Miller is working on a management buyout plan in conjunction with JMB Realty and First Chicago Corporation.

Unilever Mexican deal

UNILEVER, the Anglo-Dutch food and consumer goods group, is to pay the Mexican government £43.7m for an edible oil refinery and pasta manufacturing factory.

Unilever said part of the price, which includes local taxes, would be recoverable.

The acquisition of the Industrias Conasupo facility at Tultitlan in the Mexico City valley will improve Unilever's coverage of the edible oils market in the centre and south of the country.

Norfolk Capital still fighting to be independent

By David Owen

The takeover battle between Queens Moat Houses and Norfolk Capital reaches its conclusion today when Queens Moat's £157m all-share bid for its rival hotel company closes.

Norfolk reiterated its appeal to shareholders to reject the bid on Friday, with the announcement that detailed planning consent for the property adjoining its Caledonian Hotel in Edinburgh was now unconditional.

This, together with encouraging interest from potential investors in the group's St James's Clubs, confirms that it "can and will fulfil its plans for realising £75m in cash whilst continuing to increase the net asset value of the company", said Mr Anthony Richmond-Watson, its chairman.

Norfolk argues that the offer, which values it at 38p a share against Friday's close of 36¾p, represents a 28 per cent discount to net asset value.

Ten days ago Lady Joseph and Mr Tony Good resigned as Norfolk directors, and revealed their intention of voting their 8 per cent shareholding in favour of the bid from Queens Moat.

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Abtrust New Thai Inv. Trust (Ord. & Warrants) (Section: Investment Trusts).

Kyowa Bank (Banks, HP & Leasing).

London Securities 8.25p (Net) Cnv. Cum. Red. Prf. (Property).

Yorkshire Water (Water).

BASE LENDING RATES

	%		%		%
ABN Bank	15	Coutts & Co	15	Northern Bank Ltd	15
Adam & Company	15	Cyprus Popular Bk	15	Norwich Gen. Trust	15
Allied Trust Bank	15	Duncan Bank PLC	15	Nykredit Mortgage Bank	15½
Allied Irish Bank	15	Duncan Lawrie	15	PRIVATbanken Limited	15
● Henry Ansbacher	15	Equatorial Bank plc	15	Provincial Bank PLC	16
Associates Cap Corp	15½	Exeter Trust Ltd	15½	R. Raphael & Sons	15
● B & C Merchant Bank	15	Financial & Gen. Bank	15	Roxburghe G'rantee	15½
Bank of Baroda	15	First National Bank Plc	16	Royal Bk of Scotland	15
Banco Bilbao Vizcaya	15	● Robert Fleming & Co.	15	Royal Trust Bank	15
Bank Hapoalim	15	Robert Fraser & Ptnrs	15½	● Smith & Williamson Secs	15
Bank Credit & Comm	15	Girobank	15	Standard Chartered	15
Bank of Cyprus	15	● Guinness Mahon	15	TSB	15
Bank of Ireland	15	HFC Bank plc	15	● United Bk of Kuwait	15
Bank of India	15	● Hambros Bank	15	United Mizrahi Bank	15
Bank of Scotland	15	Hampshire Trust Plc	15½	Unity Trust Bank Plc	15
Banque Belge Ltd	15	Heritable & Gen Inv Bnk	15	Western Trust	15
Barclays Bank	15	● Hill Samuel	§15	Westpac Bank Corp	15
Benchmark Bank PLC	15	C. Hoare & Co	†15	Whiteaway Laidlaw	15
Brit Bk of Mid East	15	Hongkong & Shangh	15	Yorkshire Bank	15
● Brown Shipley	15	● Leopold Joseph & Sons	15		
CL Bank Nederland	15	Lloyds Bank	15		
● Charterhouse Bank	15	McDonnell Douglas Bnk	15		
Citibank NA	15	Meghraj Bank Ltd	15		
City Merchants Bank	15	Midland Bank	15		
Clydesdale Bank	15	Mount Banking	15		
Comm. Bk N. East	15	Nat. Bk. of Kuwait	15		
Co-operative Bank	*15	NatWestminster	15		

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FINANCIAL TIMES STOCK INDICES

	Feb 23	Feb 22	Feb 21	Feb 20	Feb 19	Feb 16	1989/90 High	1989/90 Low	Since Compilation High	Since Compilation Low
Government Secs.	80.15	79.91	80.00	79.87	79.89	80.48	89.29	79.87	127.4	49.18
Fixed Interest	[illegible]	89.65	90.40	90.75	90.84	90.77	99.59	89.20	105.4	50.53
Ordinary	1762.3	1789.8	1783.8	1799.0	1813.5	1836.6	2008.6	1447.8	2008.6	49.4
Gold Mines	295.6	303.3	310.5	307.0	302.6	298.4	378.5	154.7	734.7	43.5
FT-Act All Share	1114.95	1131.29	1127.78	1137.40	1147.05	1159.33	1226.83	921.22	1238.57	61.92
FT-SE 100	2236.7	2269.2	2259.7	2277.0	2297.1	2325.9	2463.7	1782.8	2463.7	986.9

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

JP Morgan poised to extend syndication boundaries

HOW MANY WAYS are there to skin a cat? Different syndication techniques on the Eurobond market have been the subject of much discussion and controversy, but little consensus has emerged.

Today J.P. Morgan plans to offer up for scrutiny and criticism the latest variation. It will add another layer of complexity to the general debate.

The plan is simple in conception. The Kingdom of Denmark will issue a five-year Eurobond worth between $500m and $1bn. Bonds will be allocated to any interested member of the International Primary Markets Association under an auction system to be run on Thursday by the Morgan Guaranty Trust Company in New York.

Banks will be invited to bid at a spread over US Treasuries for as many bonds as they want. The borrower will then line up the bids and assess the price at which the minimum issue size of $500m is covered: in other words, the price at which the sum of equal or tighter bids adds up to at least $500m.

While reserving the right not to do a deal if it considers the so-called clearing price too tight for its borrowing programme, Denmark will then announce the issue price. Bidders will receive their full allocations at that price less a 20 basis point selling concession.

Bids outside the issue price will automatically lapse, so the final issue size will depend on how tightly the bids are bunched behind the price.

The auction system is an attempt to address several problems that have emerged since large, sovereign dollar issues have been syndicated as fixed-price reoffer deals.

In particular, an auction in theory reduces the advantage for the lead manager built in to a reoffer on pricing and allotting bonds.

The recent $1.5bn global bond issue for the World Bank caused much comment when investors trying to ensure block holdings of the bonds inadvertently created an impression of huge demand by bidding for more paper than they actually wanted.

This persuaded the issuer to tighten the indicated launch spread to a level which drove away many of the same investors and damaged the performance of the issue.

Unlike the first global bond, the second widened sharply in spread terms after launch, although the poor market conditions were partly to blame.

An auction should weed out those bidders who request more paper than they want or can handle, while also satisfying the biggest dollar trading houses by allowing them to bid aggressively for large blocks of bonds.

According to J.P. Morgan, the system offers the closest approximation to date of a block trading system for large Eurobond issues.

Auctions have a brief but undistinguished history on the Euromarket. In the mid-1980s some small fixed-rate deals were auctioned for Exxon, and although the process itself worked satisfactorily the paper did not trade actively.

In 1984 an auctioned floating-rate note issue for the Kingdom of Sweden was oversubscribed, but was later overtaken by the FRN crisis.

Last year the World Bank is thought to have been shown proposals for an auction to launch its global bond issues.

J.P. Morgan is clearly taking a considerable risk in bringing the deal at a time when world bond markets are experiencing some of the most volatile trading sessions in recent memory.

The obvious danger of a bidding and allocation process lasting nearly four days is that what might appear an appropriate spread today will look hopelessly out of line by the time investors know what they are getting.

On Friday, in relatively calm conditions, Nomura International reflected the uncertainty in the dollar market by bringing a five-year deal for the group's investment bank at a wide spread for a triple-A credit of 77 basis points over Treasuries.

Valuing a potentially liquid issue for Denmark in such conditions will be no easy task. J.P. Morgan is not indicating broad spreads around which bids can cluster, leaving it to the market to define value.

The lack of benchmark dollar deals for Denmark only adds to the difficulties. A recent five-year issue brought by Goldman Sachs was launched at 69 basis points over Treasuries, and has since tightened to 60 basis points. But it was only for $100m and cannot be considered a valid comparison.

Possible benchmarks are deals for Italy, trading around 46 basis points over Treasuries, and New Zealand, at 69 basis points.

Further complicating matters is the fact that the new five-year Treasury has a higher yield than the old benchmark, lending the impression that Eurodollar spreads have been tightening.

News of the Denmark deal broke too late on Friday for competitors to formulate detailed reactions. Several syndicate officials commented that what appeared to be a good idea could be fatally undermined by timing.

In general, however, it was acknowledged that if the system proved efficient it would clearly stand as the best way to issue securities.

It would introduce so-called disintermediation, or the removal of unnecessary intermediaries between issuer and investor.

J.P. Morgan was anxious not to claim that this was a universal syndication technique appropriate for all deals. Officials said they continued to support the fixed-price reoffer method of underwriting Eurobonds for certain borrowers, as well as the traditional approach where relevant.

The auction concept is vulnerable to precisely the same attack made by competitors when Morgan Stanley launched the first reoffered deal for New Zealand in September last year; why use a new technique when existing methods will almost certainly result in cheaper funds for the borrower?

Initial reactions on Friday gave a rough indication that under traditional circumstances Denmark could undertake a large issue at a spread of about 65 basis points over Treasuries. With a reoffer this would narrow to perhaps 60 basis points.

There is a danger that the 20 cent fee will be discounted by bidders. And some may be tempted to second-guess the covering price.

It remains to be seen what spread investors will prefer in an auction. Even if the novelty of the deal attracts unusual demand, the precise spread will be elusive until the auction is over on Thursday as no one will know the covering level.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
DBS Land Ltd.(b)#♦	75	1995	5	1	100	Daiwa Europe/Nomura	1.000
Ireland♦	250	2000	10	9½	99.70	Goldman Sachs Int.	9.548
Turkey♦	200	1997	7	10¾	100.20	Mitsui Fin. Int.	10.708
Indian Oil & Nat. Gas♦	125	1997	7	10	101.85	Nomura Int.	9.625
Nomura Bank Int.♦	150	1995	5	9⅜	101⅝	Nomura Int.	8.958
Toda Construction Co.#	300	1994	4	2⅛	100	Nikko Secs. (Europe)	2.125
Yamanouchi P'maceutical#	300	1994	4	2⅛	100	Nikko Secs. (Europe)	2.125
AUSTRALIAN DOLLARS							
Toronto-Dom. Aust.(h)♦	25	1991	1	18¼	101⅛	Westpac/Kredietbank	16.646
D-MARKS							
New Zealand(d)‡♦	500	1995	5	-⅛	100	Commerzbank	-
SWISS FRANCS							
Carter Holt Harvey Fin§	(a)	1995	-	7	100	S.G. Warburg Soditic	7.123
DSM NV★★♦	100	1995	-	7¾	100½	Credit Suisse	7.635
Hessische LB★★♦	75	1997	-	7½	101	J.P. Morgan Secs.	7.312
Dresdner Int. Fin.♦	200	2000	-	7⅜	101⅞	Dresdner Bank	7.230
Nat. Nederlanden US★★♦	75	1997	-	7½	101	UBS	7.312
EIB★★♦	150	1997	-	7½	100½	UBS	7.408
S'tomo Coal Mining(l)★★§	50	1994	-	Zero	100	Banca del Gottardo	-
Daikure Co.★★♦	11	1995	-	7¼	100½	IBJ (Switzerland)	7.628
Tokai Corp(Gifu)(n)★★§	60	1994	-	Zero	100	Bank Julius Baer	-
O S Co.★★#	20	1994	-	(2)	100	SBC	*
Kawasaki Electric(o)★★§	40	1995	-	Zero	100	Banca del Gottardo	-
Kobayashi Metals(p)★★§	35	1994	-	Zero	100	Wirtschafts-und Prbk.	-
Tigers Polymer(q)★★§	30	1994	-	Zero	100	Citicorp Inv. Bank	-
STERLING							
British Telecom(l)♦	53.4	1998	3	13⅛	100⅛	UBS Phillips & Drew	-
Coll.Mortgage Secs.3‡♦	200	2030	6½	(m)	100	S.G. Warburg Secs.	-
Hydro-Quebec♦	150	2015	25	12⅝	99.958	S.G. Warburg Secs.	12.631
FRENCH FRANCS							
Nord-Est(j)♦	350	1993	3	Zero	99.80	Banque Paribas	0.067
EIB(m)♦	1bn	1998	8	10.40	99.65	Banque Indosuez	10.467
LIRE							
Crediop♦	150bn	1995	5	13¼	101⅜	B.Commerciale Ital.	12.755
LUXEMBOURG FRANCS							
D'Ieteren Trading BV★★♦	300	1995	5	10⅝	101⅛	BGL	10.161
Lease Plan Holding★★♦	300	1993	3	10⅞	102	Banque Paribas Lux.	10.070
World Bank♦	1bn	1995	5	9¾	101½	BIL	9.361
Gerinvest NV★★♦	300	1993	3	10¼	101⅞	Kredietbank Int.	9.996
Credit Foncier★★♦	300	1995	5	10½	101⅞	Kredietbank Int.	10.005
YEN							
Soc.Generale Acc.(c)♦	10bn	1991	1¼	(c)	100⅞	Bankers Trust Int.	-
Toronto-Dominion Bk(c)♦	10bn	1991	1¼	(c)	100⅞	Bankers Trust Int.	-
Credit Lyonnais(e)♦	10bn	1998	3	12	101⅜	Nomura Int.	11.433
Postipankki(f)♦	5bn	1993	3¼	(f)	95.575	Daiwa Europe	-
Giroz.Bk Oest.Spark(g)♦	3.4bn	1992	2	8½	101⅛	Nippon Credit Int.	7.870
Giroz.Bk Oest.Spark(g)♦	1.7bn	1992	2	9	101⅛	Nippon Credit Int.	8.366
CCF(g)♦	2bn	1993	3	9	101⅞	Morgan Stanley	8.462
EIB♦	40bn	2000	10	6⅝	101⅛	Yamaichi Int. (Eur)	6.452
CIBC(k)♦	5bn	1991	1	8.6	101⅛	New Japan Secs.	7.259
Office Cen.Cr.Hypoth.★★♦	10bn	1995	5	7	100	LTCB of Japan Ltd.	7.123

★Not yet priced. ★★Private placement. #With equity warrants. §Convertible. ‡Floating rate notes. ♦Final terms. a) Amount will depend on exchange offer. Three new bonds may be bought for two old bonds plus SFr5000 in cash less accrued interest on two old bonds. Investors can also pay cash. Conversion price: NZ$2.78. Exchange rate: SFr0.875 per NZ$. Each SFr5000 has 2,055.5 shares plus 1,000 option shares. b) Exercise price: S$3.50. Exchange rate: S$1.86. c) First coupon 3-month Libor flat, then 14.38% thereafter. Redemption linked to Nikkei stock index. d) ⅛ under 6-month Libor. Non-callable. e) Short first coupon of 9¼%. f) First coupon pays ¼ over 3-month Libor, then 6½% fixed. Redemption linked to Nikkei stock index. g) Redemption linked to Nikkei stock index. h) Deposit notes. Redemption in either A$ or NZ$ at borrower's option. i) Fungible with existing issue taking size to £300m. j) Redemption linked to CAC French stock market index. k) Deposit notes, redemption linked to Nikkei stock index. l) Yield to put 3.25%. m) 25bp over 3-month Libor first 10 years, 50bp over thereafter. Fixed re-offer price 99.75. n) Yield to put 3.491%. o) Yield to put 3.613%. p) Yield to put 3.694%. q) Yield to put 3.444%. Note: Yields are calculated on AIBD basis.

EUROCREDITS

Aircraft finance flies out of gloom

BANKERS deploring the lack of new business following the latest spate of corporate restructurings can take consolation from noting that financing of aircraft for even the most beleaguered nations is being successfully completed.

Chase Investment Bank and General Electric Capital Corp are preparing this week to launch a syndication for a $311m financing for government-owned Ethiopian Airlines. Ironically, the nation which is the subject of a worldwide famine relief effort aimed at averting the deaths of up to 2m of its citizens has run Africa's most profitable airline.

The funds will be used to buy five 575-200 long-range Boeing aircraft and three spare engines. Of the money to be raised, $100m will be provided by GE Capital as a subordinated loan, providing senior lenders with comfort in the form of a maximum loan-to-asset value ratio of 52 per cent.

Lenders unnerved by the nation's political instability – it has been fighting a 28-year civil war and its President survived a foiled coup attempt last year – will be relieved to learn that the lenders have arranged for aircraft repossession insurance to be placed with Lloyd's.

Also, Chase says it has successfully completed syndication of a $99.6m financing for Zambian Airways' purchase of one McDonnell Douglas MD-11. The aircraft will actually be purchased by a company owned by a US-based trust, thus allowing banks to show the loan on their books as US risk. The manufacturer has also provided lenders with a "loss deficiency guarantee," ensuring that they will recover most of the aircraft's cost if it has to be resold in event of default.

Terms of the loan call for a margin of 150 basis points over London interbank offered rate, (Libor), a commitment fee of ⅜ and front-end fees of 30 basis points for commitments of $10m or more.

Meanwhile, J.P. Morgan has extended indefinitely its syndication of the $409 senior debt financing for Swedish Match, the leveraged buy-out of the consumer products division of Stora. As well as the concern about lending to highly leveraged transactions, bankers were said to have balked after learning that about two-thirds of senior debt repayments were dependent on the borrower's ability to sell assets, some based in Latin America.

Separately, the Bank of Greece says it is seeking bids from lenders to arrange a $500m eight-year loan. Bankers note that the borrower's timetable appears somewhat ambitious – bids to be submitted by February 27, with completion of the loan before elections on April 8.

National Westminster announced terms for its $100m three-year revolving credit facility for Centex Corporation, a Dallas-based property company. The loan may be extended annually at the lender's option after the first 18 months. It carries a margin of 18¾ basis points, a facility fee of 17½ basis points and a commitment fee of 6¼ basis points.

Barclays de Zoete Wedd is arranger of two commercial paper programmes, one a $500m multi-currency programme for Barclays Australia International Finance. The paper will carry A-1+/P-1 credit ratings. The other is a £100m commercial paper programme for Mitsubishi Corporation Finance. The securities will also be rated A-1+.

KommuneKredit, a Danish credit association lending to municipalities, has established a $150m Euro-commercial paper programme arranged by Nikko Securities (Europe). The securities are rated P-1 by Moody's Investors Service.

Norma Cohen

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	605.0	0.0	101.0	11,253.3
Prev	2,070.8	20.0	0.0	11,873.5
Other	1,028.6	46.8	631.5	2,324.6
Prev	3,200.3	95.3	711.6	5,997.6
Secondary Market				
US$	17,017.8	682.7	5,401.7	7,055.5
Prev	18,521.9	952.9	4,356.2	5,843.9
Other	25,992.7	828.3	7,912.6	69,883.5
Prev	26,354.1	1,259.6	5,474.3	49,646.3

	Cedel	Euroclear	Total
US$	12,861.1	29,255.9	42,117.0
Prev	12,335.8	31,333.4	43,669.2
Other	42,832.4	65,818.2	108,650.6
Prev	34,584.2	58,153.9	92,738.1

Week to February 22, 1990 — Source: AIBD

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Uneasy calm replaces volatility

SOME SEMBLANCE of composure returned to US credit markets by the end of last week following their ungainly tumble on the first day of trading after the President's Day long weekend.

Although the domestic US picture looks quiet enough for this week, Wall Street traders and investors will remain edgy about policy abroad.

The row in Tokyo over Japanese monetary policy and concern over the economic impact of German unity will continue to reverberate around the world.

Both worries, coupled with some initial confusion over the testimony to Congress of Mr Alan Greenspan, the Federal Reserve chairman, wreaked havoc with the markets last Tuesday.

The price of the Treasury's benchmark 30-year bond dropped 2¼ points on the day, the biggest fall in six months. The yield jumped to 8.66 per cent, its highest level since last May.

Mr Greenspan said the US economy was picking up a little steam and thus it was increasingly unlikely to slip into a recession.

Coupled with his comment that inflation remained persistently high, the markets assumed no further easing of monetary conditions was in sight. Worse, the Fed might even tighten if inflation remained sticky.

Because few investors have any firm conviction of where credit markets are heading, they have been quick to sell in recent weeks.

The volatility was evident on Tuesday. Mr Greenspan must have been a little unhappy about the market response to events at home and abroad as his tune was slightly different when he returned to Congress on Thursday to give more testimony.

Day two had "quite a different ring" from day one, said Griggs and Santow, a New York firm of money market analysts. The substance was similar but Mr Greenspan chose to emphasise different points.

The markets thought he was more even-handed and less bearish. In spite of the big 1.1 per cent jump in the consumer price index for January, announced the previous day, he argued inflation was not a pressing problem. Not all analysts agree. Mr Robert Brusca, Nikko's chief New York economist, says "the Fed's own charts on inflation . . . show adverse trends."

Producer price inflation has advanced steadily since 1986. Consumer price inflation looks comfortable over the past three years but the core goods component has accelerated sharply in the past few months.

"The Fed is not clearly making the inflation progress it requires," Mr Brusca says.

Griggs and Santow says the Fed seems to acknowledge this, judging by a "small change in policy thinking" evident in Mr Greenspan's testimony.

Whereas the Fed had indicated its desired rate of real economic growth was 2 to 2½ per cent, it would now seem prepared to let it fall to at least 1½ per cent before easing interest rates.

Its willingness to skirt even closer to a recession should growth falter again must come from its concern about inflation, Griggs and Santow says.

If US investors were growing impatient over minute analysis of domestic policy issues, they could always wrestle with the big issues abroad rolling the markets. In Japan, the central bank wants to raise interest rates to curb inflation and support the yen while the Ministry of Finance argues inflation fears are exaggerated and that steadily rising interest rates, already the highest in five years, are damaging the markets.

Fear that the Bank of Japan would soon bump up the discount rate triggered a 6.8 per cent fall in the Tokyo stock market last week, with Wednesday seeing the third-biggest ever one-day fall.

The débâcle was enough to postpone a discount rate rise for now but many US investors expect more than one increase in coming months, which in turn will put pressure on US rates.

Similarly, Wall Street is keeping a watchful eye on West German rates.

Last week the yield on 10-year West German bonds briefly breached 9 per cent for the first time in eight years, reflecting widespread certainty that German unity will mean increased money supply, government borrowing and inflation.

Economists at James Capel in London, for example, argue an early move towards German monetary union will force the Bundesbank to raise official interest rates by as much as 200 basis points by the end of this year.

US markets were troubled on Friday by rumours that Bonn was considering an inflation inducing one-for-one exchange rate for East and West German marks.

The Government stoutly denied the report but the fears live on.

Mr Greenspan told Congress that rising rates in Japan and West Germany had helped push up interest rates at home in recent weeks.

This was an inevitable consequence of nations' increasingly inter-dependent economies.

However, he stressed to the Congressmen that this was not a signal that the US was losing control over its economic policy.

The US dependence on foreign capital may be exaggerated, he said. US investors hold more than $26,000bn of dollar denominated claims on US borrowers but foreign investors own only $1,500bn.

The US may need a $115bn fix of foreign capital to plug its current account deficit each year but that is only a fraction of the $740bn raised by US non-financial borrowers. Thus domestic, not foreign, considerations overwhelmingly set US policy.

"Mr Greenspan threw cold water on the notion that we're not masters of our own destiny and are constrained by events across the ocean," says Mr Brusca of Nikko.

In fact, some foreign investors might have felt the US was something of a safe haven last week compared with Germany and Japan. Certainly they were among eager buyers at the Treasury's auctions of five-year notes on Thursday.

An unusually hefty $30bn was bid for $8bn of notes. The auction of two-year notes on Wednesday was more of a domestic affair, with retail buyers attracted strongly by the high yield.

This week brings a raft of US economic data. None of it should be too startling to credit markets but they remain vulnerable to further retreat.

Mr Greenspan has indicated that he sees no need to reduce US rates and the pressures from abroad will continue.

Roderick Oram

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.25	8.20	8.19	9.92	8.00
Three-month Treasury bills	7.92	7.92	7.82	9.11	7.26
Six-month Treasury bills	8.08	8.06	8.03	9.37	7.18
Three-month prime CDs	8.25	8.25	8.20	10.35	8.18
30-day Commercial Paper	8.20	8.15	8.20	9.95	8.05
90-day Commercial Paper	8.13	8.05	8.10	10.05	8.15

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	97¼	-¾	8.55	8.41	8.42
20-year Treasury	105½	-⅜	8.67	8.39	8.62
30-year Treasury	99¾	-1	8.55	8.46	8.51

Source: Salomon Bros (estimates).

Money Supply: In the week ended February 12, seasonally adjusted M1 rose $0.1bn to $796.6bn.

NRI TOKYO BOND INDEX

December 1983 = 100	22/2/90	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	143.80	6.97	143.95	148.14	150.00
Government Bonds	142.36	6.75	142.61	148.18	150.36
Municipal Bonds	145.69	6.97	145.50	149.56	151.68
Govt.-guaranteed Bonds	147.54	7.05	147.65	150.80	152.64
Bank Debentures	139.92	7.26	139.91	142.15	143.65
Corporate Bonds	146.54	7.06	146.66	151.08	152.14
Yen-denom. Foreign Bonds	152.01	7.35	152.31	155.80	156.31
Government 10-year†	6.09		6.12	5.36	5.61

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

Domestic inflation blues dominate

THE GILT-edged market marked time last week, ignoring the continued strong performance of sterling and focusing instead on domestic inflation blues and events in Tokyo and Germany.

Yields for long-dated maturities – about 15 years – remained above 11 per cent all week, although off their worst, and there appeared little reason to expect dramatic improvement in the near- to medium-term.

With the UK's prospective inflation profile it is difficult to present a case for the gilt-edged market until yields rise. A straw-poll of analysts found inflation expectations have risen significantly this year. Interest rates are not expected to fall much more than a percentage point from the current level of 15 per cent.

Analysts' forecasts are sensitive to next month's Budget with respect to the valorisation of excise duties. Some of the other price rises currently, or due, in the pipeline include the 7½ to 8½ per cent increase in electricity and gas bills, a average 12½ per cent climb in water prices, a higher than expected poll tax, and a substantial advance in local authority rents.

They are now looking for a peak in the recorded rate of retail price inflation of about 8.5 per cent in April. This could be followed bu a further rise to a level below 9 per cent in August, before coming down to 7 per cent in the fourth quarter.

Figures out last week also raised doubts about the extent of the slowdown. The 0.6 per cent increase in gross domestic product in the fourth quarter was stronger than expected; the decline in stocks less than expected.

The monetary statistics contained little by way of encouraging news. Annual M0 growth, adjusted for erratically low bankers' balances, was around 6.3 per cent. The indications for February are that monetary growth is still above 6 per cent. Bank and building society lending was superficially encouraging but was in line with the past six months.

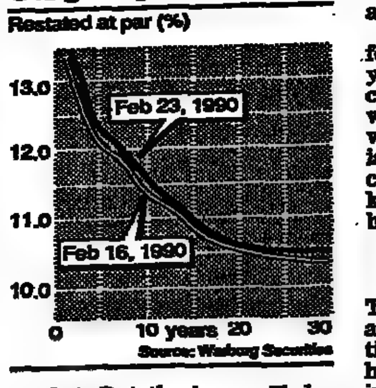
The Bank of England may be dismissive of M0 but as far as the Treasury seems concerned it is the best monetary indicator policy makers have. The credibility of the Government's medium-term financial strategy would be undermined if the Treasury does not lower the target growth range of M0 to between 0 and 4 per cent for 1990/91. The indications are that it will, although it may not attain it until this time next year.

* * *

THE APPEARANCE of a water company at the long end of the market (2015) raising £150m did not help sentiment in the gilts market. But the issuer, Hydro Quebec of Canada, must have caused some embarrassment to Britain's newly-privatised water companies.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

At the beginning of the year the UK water companies could have sold their debt at about 150 basis points above long gilts, then yielding just below 10 per cent. That represented a good opportunity to securitise part of the £7bn-plus bank borrowings they had, and more than 100 basis points better than they could do it now.

UK long-term borrowers have been timorous since the steep change in gilt yield occurred mid-way though January. According to some, the window of opportunity that the Bank's buying back of gilts afforded issuers last year might be shut. They say that issuance will be deterred now that long yields have gone above 10 to 10.5 per cent.

In any event, there would be few willing to say long gilt yields will get below 10 per cent again this year. If the UK water companies – which were reportedly looking only to issue £750m of debt this year – come to market they will do so knowing they could have done better in January.

* * *

THE GILTS market may not be attractive to domestic institutions currently, but foreigners have done quite well. According to Nomura, in local currency terms the gilt market has been the best performing of the leading markets since the begining of the year. Added to that, there has been a 4 per cent appreciation of sterling.

The trade deficit is on an improving trend and domestic inflation concerns mean that short-term interest rates will remain high.

Nomura expects gilts to come back in favour to Japanese investors who took profits earlier in the year.

Japanese personal financial assets are increasing by more than Y50,000bn (£210bn). Nomura speculates even a tiny proportion allocated to gilts should ensure gilt out-performance over the coming year.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
A.B.N. 9½ 94	300	98¾	-⅛	9.45
ABBEY NATIONAL 8¾ 93	150	98¼	-⅛	9.34
AETNA LIFE & CAS 7⅛ 14	200	95¼	-⅛	8.18
AHFC O/S.FIN. 11¾ 94	100	100⅜	0	11.46
ALBERTA PROVINCE 7¾ 92	750	97¼	-⅛	9.07
ALBERTA PROVINCE 9¾ 95	600	100⅛	-⅛	9.20
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Issued	Bid price	Chg on week	Yield
QUEBEC PROV 9 98	200	97¾	-⅛	9.40
QUEBEC PROV 13 90	125	102¼	-⅛	9.34
QUEENSLAND GOVT 10¼ 95	100	102½	-⅛	9.60
RALSTON PURINA 11⅛ 95	150	105¼	-⅛	10.32
REYNOLDS R.J. 10½ 93	100	88¾	-⅜	14.56
RICHARDSON-VICKS 11⅛ 90	125	101⅝	-⅛	10.84
ROCKWELL INT 9⅞ 90	200	99⅞	-⅛	9.75
S.A.S. 10½ 95	150	101¼	-⅛	9.65
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Issued	Bid price	Chg on week	Yield
THORN EMI 5⅞ 04 £	100	106¼	-3	7.88
TOYO TST & BANKING 1⅞ 02	100	77¾	-6½	-0.35
UTD BISCUITS 5⅞ 03 PREF	110	106⅜	-5½	-1.01

YEN STRAIGHTS	Issued	Bid price	Chg on week	Yield
ALLIED-SIGNAL 6⅛ 95	20,000	98⅞	0	7.49
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INTERNATIONAL COMPANIES AND FINANCE

Spanish banks start deposits war

By Peter Bruce in Madrid

A LONG-expected deposits war among Spain's big banks looks set to begin today when Banco Espanol de Credito (Banesto) begins paying interest on current accounts in a challenge to a similar and hugely successful move by Banco Santander last summer.

Big colour inserts by Banesto in Spain's Sunday newspapers yesterday, advertising the arrival of its "Single Account," announced that the multi-use facility would offer interest of up to 13 per cent. Santander, which began its "Super Account" last year at a maximum 11.5 per cent, has just raised this to 12.5 per cent.

Banesto's new account finally puts paid to the long-standing agreement between Spanish banks not to attack each other by breaking their informal interest rate cartel.

Santander's challenge has proved increasingly difficult for the rest of Spain's big banks to ignore. Between August and December last year, Santander's current account deposits grew by Pta282bn ($2.6bn) to Pta658bn, taking it from fourth to second place behind Banco Bilbao Vizcaya (BBV), the country's biggest bank.

BBV's current deposits, by comparison, grew just Pta51bn to Pta784bn. On average, Santander's rivals among the big seven banks managed to increase current deposits by just Pta37bn.

Most of these rivals have held back so far by convincing themselves that servicing the "super" accounts was simply too expensive. Spanish banks are subject to punishing liquidity reserve ratios (the proportion of their deposits which has to be lodged with the central bank). At one point last year the ratio rose above 18 per cent before falling back last December to 17 per cent.

These reserve obligations, say bankers, make it impossible to offer retail services which would help them compete when European Community banking is liberalised after 1992.

The Bank of Spain, however, has decided to slash the reserve ratio to just 5 per cent and the draft budget law published last Friday envisages a legal maximum of 7 per cent. That cut was to have been made last week but a last-minute technical problem apparently arose on Friday, and a formal cut is expected this week.

Bankers have given the measure a mixed welcome. At the moment just over half the reserves lodged with the Bank of Spain – 9.5 per cent – earns 7.5 per cent interest. The other 7.5 per cent is deposited interest-free. When the ratio is cut to 5 per cent, no interest will be paid.

Even worse for the banks, they are being forced to spend the money theoretically freed by the cut in required reserves on certificates of deposit (CDs), to be issued by the Bank of Spain. Probably reflecting concern at the central bank about the effect on money supply of all the freed reserves coming into play immediately, the CDs are to mature at the turn of the century and offer interest of only 6 per cent.

In addition, the authorities are still forcing the banks to limit growth of their lending this year to about 10 per cent. Bankers warn that this, combined with the low interest to be offered on their freed reserves, will damage 1990 profit and loss accounts.

To an extent, the banks are still trapped. But the key to Banesto's new account – and other big banks will almost certainly follow it – is that any new deposits will be subject to the 5 per cent reserve requirement only. Any new customers are going to cost banks only a fraction of what they have until now.

In addition, the CDs about to be issued in lieu of required reserve by the central bank will be tradeable. And although they will pay only 6 per cent – in recent weeks, rates on some public debt instruments have risen to more than 14 per cent – many banks may find it preferable to get rid of them and concentrate on doing business in the coming, less fettered, environment.

Gardini set to take control of Enimont

By John Wyles in Rome

MR RAUL Gardini, head of Italy's Ferruzzi-Montedison group, looks set this week to add "company snatching" to his list of accomplishments.

Barring further legal developments, by Wednesday evening he may well be in partial control of Enimont, the chemicals joint venture 40 per cent owned by Montedison and 40 per cent by ENI, the state energy company, he launched just over a year ago.

Mr Gardini appears to have the necessary votes to assure the election of two friendly directors at the second company shareholders' meeting.

Then, a simple majority will suffice, whereas a 65 per cent majority for the nominees will be needed at the first meeting tomorrow. ENI's attempt to have the assembly postponed was rejected by a Milanese judge on Saturday.

One of Enimont's newly-declared owners, with 4 per cent of its stock, is controlled by Mr Jean-Marc Vernes, who is president of Ferruzzi-controlled Béghin-Say and a board member of Montedison.

The Government, which has endlessly intoned that Enimont must remain in public hands, is both astounded and divided by Mr Gardini's audacity. Mr Claudio Martelli, the Deputy Prime Minister, says that Mr Gabriele Cagliari, ENI president, and Mr Gardini must be left to sort things out without political interference. But his Christian Democrat colleagues are looking to Mr Giulio Andreotti, Prime Minister, to restrain Mr Gardini and to "save" Enimont for the public sector.

Although he may control seven of the 12 board seats at Enimont, Mr Gardini will not have a strategic grasp of the company as its statutes require two-thirds agreement for all significant decisions affecting investments and product development.

Nevertheless, he was in a triumphant mood at a meeting in Padua on Saturday of about 1,500 Enimont managers. "I am now in charge of Italian chemicals," he declared, "and those who do not like it can leave."

Gencor to merge assets left by Mobil divestment

By Jim Jones in Johannesburg

GENCOR, South Africa's second largest mining house, is to merge the oil refining and distribution networks acquired when Mobil, the US oil giant, divested its South African oil and gas interests last year.

The intention is that Trek Petroleum, a Gencor subsidiary operating a nationwide chain of filling stations, will issue shares to acquire Mobil. It will also pay R30m for Gencor's 30 per cent interest in the state-owned Mossgas offshore gas project and R24.8m for the house's participation agreements with state-owned Soekor oil exploration company.

Essentially the transaction is a reverse takeover of Trek, to be renamed Engen, allowing Gencor to obtain a Johannesburg Stock Exchange listing for its oil interests. The group has not disclosed any operating details of either Mobil or Trek as the Petroleum Products Act bars disclosure in South Africa.

However in round figures the group estimates Engen's annual turnover will be more than R5bn ($1.96bn) and its taxed profit in the region of R200m. After the merger the company will operate about 1,500 filling stations. Last April Gencor paid R600m (then equivalent to $150m) for Mobil's South African interests when the US oil company divested.

At the time the American parent company said it was divesting because recent US legislation removed double taxation shields. Mobil owns a chain of about 1,000 filling stations in South Africa and a refinery at Durban.

The refinery's capacity is not disclosed, but in round figures it is believed to be producing about 60,000 barrels of liquid fuel a day. Its capacity at one stage was estimated at 100,000 barrels but Mr Bernard Smith, the Engen chairman, says most of South Africa's oil refineries have been cannibalised and that their capacities are now less than before.

Engen is at present evaluating an approximately R500m project to upgrade and expand the Durban refinery. All of the oil and synfuels companies operating in South Africa receive large but undisclosed effective subsidies as petrol and diesel prices are fixed at artificially high levels needed to ensure the costly Sasol synthetic fuels producer remains profitable.

The effect of the high-guaranteed prices has been to persuade international oil majors to continue their South African operations, even though the advent of Sasol resulted in conventional refineries becoming under-utilised.

Apart from its R54.8m cash payment for Gencor's Mossgas and Soekor participation interests, Trek will issue 89.8m new shares to Gencor. This will lift Trek's total issued shares to 110m, of which Gencor will own 84.4 per cent directly and another 9.6 per cent indirectly through its Genbel subsidiary.

In 1992 Engen has to decide if it is to invest a further R1bn in Mossgas for its share of the gas company's equity funding. The intention is that Mossgas's shareholders will provide 40 per cent of the company's approximately R8bn capital cost, the Government will match that with a soft loan and the remaining 20 per cent will be financed from commercial loans.

Independent analysts have estimated the cost of producing liquid fuels from Mossgas's gas at about four times that from crude oil. They add Mossgas will remain dependent on subsidies if it is to be profitable.

Shipping group earnings double to NKr236m

By Karen Fossli in Oslo

LABOREMUS, the Norwegian shipping group, announced on Friday a near doubling of profits, before extraordinary items, to NKr235.6m ($36.5m) in 1989 from NKr121.8m in 1988 and that it would pass its dividend payment for 1989.

The board recommended that profits for 1989 be used to strengthen further the group's capital base, in light of recent years' expansion and the demerger of offshore activities.

Laboremus said that the figure for 1989 comprises net operating profits, after depreciation, of NKr125.3m against NKr72.3m in 1988, gains from sales of ships of NKr147.9m in 1989 versus NKr62.2m a year earlier, and an increase of net financial costs to NKr37.7m from NKr12.7m.

Extraordinary profits declined to NKr15.6m in 1989 from NKr20.7m. Net profits, before year-end allocations, reached NKr251.2m against a previous NKr139.2m.

Aker and Banesto row nears end

By Peter Bruce

AKER, the Norwegian cement group, and Banco Espanol de Credito (Banesto), one of Spain's big commercial banks, appear to be close to ending their bitter dispute over control of Spain's third-largest cement group, Valenciana de Cementos.

Banesto said at the weekend that the two sides were negotiating over a division of the group.

However, it declined to confirm publicly reports that an agreement had already been signed.

Valenciana de Cementos was to have been one of the cornerstones of a new industrial group being established by Banesto. But these hopes were dashed late last November when Aker, helped by a big family shareholder in Valenciana, took over 24 per cent of the concern.

It is believed that Aker and the Serratosa family are to take full control of the parent company, Valenciana, together with eight other subsidiaries, including Cementos del Mar and Cementos del Atlantico, taking its cement-producing capacity to 8m tonnes a year.

Banesto, under this provisional arrangement, would take over about 4.7m tonnes of capacity, including Sanson, Portland Iberica and Portland Morata.

Auditors quit PepsiCo account

By Roderick Oram in New York

ERNST & Young has resigned as auditor of PepsiCo following an ultimatum from Coca-Cola that the newly-merged accounting firm choose which of the two soft drink companies it would serve.

The conflict is the largest that has arisen so far following last year's wave of mergers among many of the world's leading accountancy firms. Ernst & Whinney, Coca-Cola's auditor, had combined with Arthur Young, PepsiCo's auditor. Coca-Cola denied it had put pressure on Ernst & Young, saying the decision to drop PepsiCo was the firm's own.

Ernst & Whinney has served Coca-Cola for more than 60 years, booking some $14m in annual fees in recent years, analysts believe. Arthur Young had audited PepsiCo for 25 years, generating some $9m in fees last year.

The decision to drop PepsiCo will have minimal impact on Ernst & Young's finances. Its annual revenues from accounting, consultancy and other professional services is about $4.5bn a year. But industry analysts said the move indicated that former Ernst & Whinney partners had the upper hand in the new firm.

Dutch textiles group to acquire De Witte Lietaer

By Tim Dickson in Brussels

DE WITTE Lietaer, Belgium's only publicly quoted textile business, is passing into Dutch hands.

De Witte has agreed with Gamma Holding of the Netherlands that Gamma will buy a 55 per cent controlling stake and launch a formal takeover offer for the remaining shares at BFr9,250 each. This values the Belgian company at BFr2.16bn ($61m).

Founded in 1898 and a leader both in high quality household linen and materials for the car industry, De Witte is known to have been actively seeking a partner since last year. Until yesterday most analysts had been predicting that the company would link with Santens, another leading Belgian textiles group.

Générale de Banque, De Witte's adviser, said the two companies had complementary product lines, that De Witte would be able to take advantage of Gamma's international sales network, and that under its new owners the Belgian group would continue to be autonomously run. The merged company would be particularly well placed to strengthen its position in the household, clothing and industrial sectors.

Gamma, which has a turnover of Fl 775m ($412m), is the biggest Dutch textiles group and comprises about 20 specialised units throughout Europe. A leader in exotic clothes destined for the African market, almost 80 per cent of its sales are made outside the Netherlands.

S Africa insurer climbs to R50m

By Jim Jones

COMMERCIAL Union Assurance, the South African composite insurer affiliated to Commercial Union of the UK, suffered a sharp drop in its underwriting profit in 1989 but nevertheless increased its pre-tax profit.

Net short-term premiums increased to R263m ($103m) from 1988's R231m but the underwriting profit fell to R11.5m from R21.3m as a direct result of the present rates war and the rising cost of individual claims.

Higher investment income and a greater share of life assurance profits combined, however, to lift the pre-tax profit to R50.5m from R43m. Earnings increased to 387.3 cents a share from 312.4 cents. The dividend has been lifted to 95 cents from 75 cents.

CONTRACTS & TENDERS

WORLD STOCK MARKETS

AUSTRIA | FRANCE (continued) | GERMANY (continued) | ITALY (continued) | SWEDEN | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | NETHERLANDS | SWITZERLAND | NORWAY | SPAIN | ITALY | SOUTH AFRICA | GERMANY | JAPAN | AUSTRALIA | HONG KONG | MALAYSIA | SINGAPORE

CANADA

TORONTO
Closing prices February 23

MONTREAL
Closing prices February 23

INDICES

NEW YORK

DOW JONES	Feb 23	Feb 22	Feb 21	Feb 20	1989/90 HIGH	1989/90 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2564.19	2574.77	2583.56	2596.85	2810.15 (2/1/90)	2144.64 (3/1/89)	2810.15 (2/1/90)	41.22 (2/7/32)
Home Bonds	91.03	91.05	91.00	91.09	94.15 (2/8/89)	87.35 (23/3/89)	—	—
Transport	1081.26	1070.64	1084.64	1067.92	1532.01 (5/9/89)	959.95 (3/1/89)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	216.86	216.86	218.25	218.56	236.23 (2/1/90)	181.84 (24/2/89)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2591.44 (2622.30) Low 2540.99 (2568.02)

STANDARD AND POOR'S

	Feb 23	Feb 22	Feb 21	Feb 20	1989/90 HIGH	1989/90 LOW	Since compilation HIGH	Since compilation LOW
Composite †	324.15	325.70	327.67	327.99	359.80 (9/10/89)	275.31 (3/1/89)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	373.15	375.35	378.14	378.66	411.20 (2/1/90)	318.66 (3/1/89)	411.20 (2/1/90)	3.62 (21/6/32)
Financial	28.17	28.20	28.19	28.15	35.24 (9/10/89)	24.30 (3/1/89)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	179.35	180.26	181.07	181.57	199.34 (9/10/89)	154.98 (3/1/89)	199.34 (9/10/89)	4.46 (28/4/42)
Amex Mkt. Value	351.10	353.36	352.95	354.86	397.03 (10/10/89)	305.24 (3/1/89)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	419.52	422.75	421.52	425.83	485.73 (9/10/89)	378.56 (3/1/89)	485.73 (9/10/89)	54.87 (31/10/72)

	Feb 16	Feb 9	Feb 2	year ago (approx.)
Dow Industrial Div. Yield	4.14	4.09	4.16	3.61

	Feb 21	Feb 14	Feb 7	year ago (approx.)
S & P Industrial div. yield	3.16	3.11	3.09	3.18
S & P Ind. P/E ratio	14.32	14.21	14.23	13.30

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Pfizer	3,941,700	56¼	−3
Parker Drill	2,919,700	18⅛	−⅛
Philip Morris	2,061,800	37⅝	−⅝
Fst Int Bk	2,023,900	36¼	−⅛
Texas Ut.	1,809,300	34⅝	+⅛
A T & T	1,615,200	38⅛	
Merck	1,602,400	66	−1⅛
IBM	1,562,900	102⅝	−⅛
Global Marine	1,530,200	5	−⅛
Upjohn	1,529,700	36	−⅛

TRADING ACTIVITY

† Volume (Millions)	Feb 23	Feb 22	Feb 21
New York	148,498	184,320	159,240
Amex	10,695	11,064	11,632
NASDAQ	(u)	134,873	120,102
Issues Traded	1,948	1,965	1,982
Rises	442	713	583
Falls	980	754	965
Unchanged	526	498	434
New Highs	2	21	20
New Lows	42	52	96

CANADA TORONTO

	Feb 23	Feb 22	Feb 21	Feb 20	1989/90 HIGH	1989/90 LOW
Metals & Minerals	2921.03	2936.26	2959.23	2981.50	3919.2 (1/9/89)	2921.03 (23/2/90)
Composite	3652.59	3668.62	3672.46	3692.25	4037.8 (6/10/89)	3350.5 (6/1/89)
MONTREAL Portfolio	1852.36	1862.13	1863.88	1872.96	2069.68 (10/10/89)	1677.48 (3/1/89)

Base values of all Indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto Indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Friday February 23 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	11.8m	670	-30	MHI	6.8m	1,020	-20
Kawasaki Steel	8.9m	735 0	-10	Hitachi	6.3m	1,480	-10
Sumitomo Metal	8.8m	751	-17	Toshiba	6.1m	1,120	-40
Fujita	8.4m	1,040	-30	NKK	5.4m	687	-20
Sharp	6.2m	1,770	-40	Godo Steel	4.8m	1,030	-40

FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0839 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

[illegible]

GUIDE TO UNIT TRUST PRICING

[illegible]

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Thornton Unit Managers Ltd (1000)F						
33 Cavendish Sq., London W1M 7HF 01-493 7262						
Dealing 01-493 8545						
American Opps	5	46.86	47.72xd	50.89	1.05	41506
(Accum Units)	5	48.23	49.11xd	52.38	1.05	41507
European Opps	5	71.69	71.96	76.75	0.00	41508
(Accum Units)	5	72.08	72.35	77.17	0.00	46346
Far Eastern Opps	5	132.32	132.32	141.13	0.00	41509
(Accum Units)	5	133.17	133.17	142.04	0.00	41510
Golden Opps	5	44.88	45.08xd	48.06	0.60	41511
(Accum Units)	5	46.16	46.37xd	49.45	0.60	46367
Intl Hi-Yield	5	56.62	57.02xd	60.81	4.53	41512
(Accum Units)	5	61.46	61.90xd	66.02	4.53	46368
Sanyo Japan Tst	5	67.28	67.28	71.76	0.00	41513
(Accum Units)	5	67.28	67.28	71.76	0.00	41514
Kangaroo	5	31.76	31.76	33.87	1.53	41515
(Accum Units)	5	31.94	31.94	34.06	1.53	46369
Oriental Income	5	33.34	33.41	35.62	5.25	41516
(Accum Units)	5	37.37	37.44	39.94	5.25	41517
Pacific Technology	5	57.12	57.12	60.92	0.00	41518
(Accum Units)	5	57.58	57.58	61.41	0.00	41519
Tiger	5	146.04	146.04	155.77	0.71	41520
(Accum Units)	5	148.32	148.32	158.20	0.71	41521
UK Hi-Yield	5	43.32	43.32	46.19	4.95	41522
(Accum Units)	5	49.53	49.53	52.82	4.95	46302
UK Opps	5	54.99	57.39xd	61.58	1.65	41523
(Accum Units)	5	59.84	62.66xd	67.01	1.65	41524
Three Counties Asset Mngmt Ltd (1430)F						
Cuthbert House, Tower Road, Washington NE37 2SH 091 415 3034						
Balanced Portfolio	6	90.50	91.93	97.80	4.00	–
Touche Remnant Unit Tst Mngt Ltd (1600)F						
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 01-248 1250						
4 Hourly Pricing—12 Noon Historic						
TR American Gwth.	5¼	43.42	43.42	46.31	0	41525
TR Eur Sp Sits Acc	5¼	40.15	40.15	42.74	0	41526
TR Eur Sp Sits Inc	5¼	39.37	39.37	41.91	0	41527
TR General Growth	5¼	72.20	72.10xd	76.70	2.88	41528
TR Global Tech	5¼	68.64	68.64	73.21	0	41529
TR Income Growth	5¼	84.58	84.78xd	90.19	4.60	41530
TR Income Monthly	5¼	53.69	53.69	57.11	7.05	41531
TR Japan Growth	5¼	89.87	89.87	95.34	0	41532
TR Overseas Growth	5¼	64.62	64.62	68.88	0	41533
TR Smaller Cos	5¼	79.98	79.98	85.08	3.04	41534
TR Special Ops	5¼	90.63	90.63xd	96.41	2.90	41535
TR Mgd Eq Plan Acc	5¼	33.15	33.15	35.26	2.36	41536
TR Mgd Eq Plan Inc	5¼	31.08	31.08	33.06	2.36	41537
TR Wwde Sp Sit Acc	5¼	35.09	35.09	37.30	0	41538
TR Wwde Sp Sit Inc	5¼	35.06	35.06xd	37.44	0	41539
TR Pension Portfolio						
TR American Gwth ♦	6	26.19	26.54	28.14	0	46977
TR Eur Sp Sits ♦	6	31.96	32.17	34.10	0	46978
TR General Growth ♦	6	23.83	24.08	25.53	0	46979
TR Global Tech ♦	6	27.15	27.52	29.17	0	46980
TR Income Growth ♦	6	24.61	24.87	26.36	0	46981
TR Japan Growth ♦	6	28.08	28.30	30.00	0	46982
TR Mgd Equity ♦	6	25.39	25.62	27.15	0	46983
TR Overseas Growth ♦	6	27.70	28.06	29.74	0	46984
TR Smaller Cos ♦	6	18.73	18.93	20.07	0	46985
TR Special Ops ♦	6	18.65	18.68	19.81	0	46987
TR Stlg Liquidity ♦	6	25.37	25.82	26.90	0	46986
TR Wwde Sp Sits ♦	6	28.63	29.23	30.81	0	[illegible]
Trades Union Unit Tst Mngrs (1200)H						
NLA Tower, Addiscombe Road, Croydon 01-686 4355						
TUUT	4	241.0	246.3	259.2	3.09	41540
Triton Fd Mngrs. Ltd. (1000)H						

	Bid Price	Offer Price	Yield Gross	City-line
J. Rothschild Fund Managers Ltd				
Intl Exempt	145.3	147.0	1.42	46172
Stewart Ivory & Co Ltd				
Saints PPP Jan 21	264.6	278.6	–	41482
Closed to new business				
Thornton Unit Managers Ltd				
Managd Exempt Feb 15	101.73	107.81xd	3.84	46975
(Accum Units)	102.35	108.47xd	3.84	46976
Touche Remnant Unit Tst Mngt Ltd				
TR Exempt European	1068	1082	167	47801
TR Exempt Nth Amer	872	885	369	47802
TR Exempt Pac Basin	960	973	0	47803

INSURANCES

	Bid Price	Offer Price	Yield Gross	City-line
AA Friendly Society				
(Investment Mngt M & G Inv Mngt Ltd)				
AA Friendly Sy Feb 9	–	173.3	–	41607
Abbey Life Assurance Co Ltd				
80 Holdenhurst Road, Bournemouth 0202 292373				
Prop. Ser. 1	300.9	316.8	–	41608
Equity Ser 1	129.0	135.8	–	41609
Prop. Acc. Ser 2	463.9	488.4	–	41610
Equity Ser 2	149.7	157.6	–	41611

OTHER UK UNIT TRUSTS

[illegible]

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

National Financial Management Corp PLC
72 Gatehouse Rd, Aylesbury. HP19 3XJ 0296 393539

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Managed Cautionary	103.4	108.9	–	47150
Managed Growth	137.7	145.0	–	47151
Managed Opportunity	141.5	148.9	–	47152
NFMC Target Financial	101.2	106.6	–	47153
Pension Funds				
Managed Cautionary	108.1	113.8	–	47154
Managed Growth	141.7	149.2	–	47155
Managed Opportunity	143.3	150.9	–	47156
NFMC Target Mngd Pen	1477.6	1555.4	–	47157

National Mutual Life
The Priory, Priory Pk, Hitchin. SG5 2DW 0462 422422

	Bid Price	Offer Price	Yield Gross	City-line
Managed Fund	224.0	235.8	–	43122
Managed Property Fund	188.0	197.9	–	43123
Pens Managed	283.5	298.5	–	43128
Pens UK Equity	340.1	358.1	–	43129
Pens Overseas Equity	374.4	394.2	–	43130
Pens Property	162.8	171.4	–	43131
Pens Fixed Interest	172.0	181.1	–	43132
Pens Index Linked	142.2	149.7	–	43133
Pens Deposit	189.8	199.8	–	43134
Harvester & P.R.P.				
UK Equity	148.6	156.5	–	43135
Overseas Equity	134.0	141.1	–	43136
Fixed Interest	117.5	123.7	–	43137
Property	135.4	142.6	–	43138
Index Linked	129.2	136.0	–	43139
Deposit	131.6	138.6	–	43140
Managed	142.5	150.4	–	43141
With Profits	135.0	142.2	–	43142

National Provident Institution
48 Gracechurch St, London EC3P 3HH 01-623 4200

Providence Capital Life Assc. Co Ltd – Contd.

	Bid Price	Offer Price	Yield Gross	City-line
Property Initial	148.2		–	43433
Money Initial	78.7		–	43434
Special Market Initial	232.1		–	43435
Japan Equity Initial	107.1		–	46712
North American Initial	77.5		–	43437
Pacific Initial	78.9		–	43438
Technology Initial	125.0		–	43439
Nat Resources Initial	56.6		–	43440
European Initial	79.2		–	43442
Residential Prop Init	103.5		–	43443
Swiss Equities Initial	56.4		–	43444
Hong Kong Initial	45.6		–	43445

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

MANAGEMENT SERVICES

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

SWITZERLAND (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

ISLE OF MAN (**)

LUXEMBOURG (**)

DUBLIN (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

Money Market Trust Funds

	Gross	Net	Gr Eqv CAR	City-line
Charities Aid Funds Money Mngmt Co Ltd				
48 Pembury Road, Tonbridge TN9 2JD 0732 770114				
Cafcash Deposit Fd	14.81	–	15.85	–
The Charities Deposit Fund				
2 Fore Street, London EC2Y 5AQ 01-588 1815				
Deposit	14.80	–	15.64	–
Gartmore Money Management Ltd				
2-3 White Hart Yard, London SE1R 1NX 01-234 1485				
Call Fnd	14.67	11.48	15.74	–
7-day Fund	14.85	11.62	15.94	–
Special Fund	14.78	–	16.27	–
Dollar	7.00	5.40	7.45	–

Money Market Bank Accounts

	Gross	Net	Gr Eqv CAR	City-line
Allied Trust Bank Ltd				
97-101 Cannon St, London, EC4N 5AD 01-479 6802				
DMHIA (£2,001 +)	14.50	11.36	15.94	–
HICA (£2,001 +)	13.90	10.88	15.248	–
Bank of Ireland High Interest Cheque Acc				
36 Queen St, EC4R 1BN 01-625 7000				
2,000–9,999	13.720	10.720	14.722	–
£10,000 +	[illegible]	11.000	15.[illegible]	–
Bank of Scotland				

UNIT TRUST NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Market questions D-Mark and yen

WEAK EQUITY markets and fears about the cost of German monetary union encouraged moves into the higher yielding European currencies, such as sterling and the Swiss franc last week. Investors took the view that the sharp fall in share prices in Tokyo and the implications of monetary union between East and West Germany made the yen and D-Mark vulnerable, and it was worth looking for better returns elsewhere.

The apparent discord between the Japanese administration and Bank of Japan over interest rate policy did not help the yen. A rise in the discount rate was expected once the Japanese general election was out of the way, but the Ministry of Finance made it clear it does not favour such a move at present. This highlights again the relationship between central banks and governments after recent suggestions that the Bundesbank was forced to back the Bonn policy on monetary union, or risk having its independence challenged.

The process of monetary union was also questioned, following a newspaper report - denied by Bonn - that East German ostmarks would be converted at parity with the D-Mark. The market has assumed that the conversion rate will be set for the ostmark at only about 1/5th or perhaps 1/3rd the value of the D-Mark. Fears about the added cost of a one for one conversion also contributed to the D-Mark's fall from favour last week.

As the mood of uncertainty increased about two usually solid currencies, investors looked for higher yields and found the pound and Swiss franc more attractive.

UK clearing bank base lending rate 15 per cent from October 5

£ IN NEW YORK

Feb.23	Close	Previous Close
£ Spot	1.7090-1.7100	1.7130-1.7140
1 month	0.87-0.85pm	0.87-0.86pm
3 months	2.73-2.70pm	2.80-2.77pm
12 months	9.62-9.52pm	9.80-9.70pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

Feb.23	Bank of England Index	Morgan** Guaranty Changes %
Sterling	90.2	-21.4
U.S Dollar	67.1	-11.0
Canadian Dollar	101.2	-1.2
Austrian Schilling	109.7	+11.9
Belgian Franc	110.0	-3.1
Danish Kroner	109.6	+3.9
Deutsche Mark	118.5	+24.9
Swiss Franc	109.6	+17.6
Guilder	114.5	+16.4
French Franc	103.8	-12.5
Lira	100.6	-18.5
Yen	126.7	+57.3

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) **Rates are for Feb.22.

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.7095	1.7004	1.6818	1.6566	1.6124

IMM-STERLING $s per £

	Close	High	Low	Prev.
Mar	1.7034	1.7038	1.6990	1.7040
Jun	1.6770	1.6744	1.6720	1.6774
Sep	1.6526	1.6530	1.6486	1.6530

STERLING INDEX

CURRENCY RATES

OTHER CURRENCIES

POUND SPOT- FORWARD AGAINST THE POUND

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

Oct 9,1989 , Deposits withdrawn for cash 5 per cent.

CHICAGO

Previous day's open int: Calls 304,713 Puts 367,529 (All currencies)
Previous day's volume: Calls 23,220 Puts 35,011 (All currencies)

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of stocks per grouping	FRIDAY FEBRUARY 23 1990 US Dollar Index	% change since Dec.29 '89	Pound Sterling Index	Local Currency Index	% change local currency since Dec.29 '89	Gross Div. Yield	THURSDAY FEBRUARY 22 1990 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1989/90 High	1989/90 Low	Year ago (approx)
Australia (84)	141.72	-6.4	122.94	123.10	-3.4	5.45	143.83	124.37	125.12	160.41	128.28	138.22
Austria (19)	266.08	+46.0	230.83	232.23	+45.2	1.14	264.76	228.95	229.96	266.08	92.84	100.78
Belgium (61)	135.46	-12.4	117.51	116.59	-14.1	4.78	136.03	117.63	116.74	160.02	125.58	133.51
Canada (120)	137.87	-9.4	119.61	119.45	-6.4	3.41	138.77	120.00	120.03	154.17	124.67	131.35
Denmark (36)	249.22	+2.9	216.21	218.46	+0.8	1.47	251.46	217.44	219.82	260.82	165.35	170.38
Finland (26)	149.49	+12.1	129.69	123.39	+9.1	2.41	148.65	128.54	122.76	159.16	118.63	144.81
France (125)	142.06	-8.4	124.02	127.43	-10.0	2.95	146.04	126.29	129.60	157.97	112.57	114.19
West Germany (96)	125.86	+1.7	109.18	109.79	+0.9	1.93	128.61	111.22	111.66	137.01	79.56	84.36
Hong Kong (48)	118.27	+1.0	102.61	118.56	+1.0	4.92	119.80	103.60	120.07	140.33	86.41	131.17
Ireland (17)	189.31	+4.3	164.23	168.56	+2.4	2.58	190.80	164.99	168.97	198.57	125.00	145.82
Italy (96)	94.90	-3.6	82.33	87.96	-5.7	2.61	95.53	82.61	88.09	102.11	74.97	81.17
Japan (455)	168.24	-14.8	145.95	156.27	-12.9	0.52	173.84	150.32	160.32	200.11	164.22	200.03
Malaysia (36)	238.46	+4.1	206.87	248.24	+4.3	2.14	240.82	208.25	250.56	245.32	143.35	159.44
Mexico (13)	381.42	+17.2	330.89	1137.63	+18.8	0.46	373.56	323.03	1115.42	381.42	153.32	159.30
Netherland (43)	132.77	-7.7	115.18	114.53	-8.7	4.78	135.53	117.20	116.32	145.66	110.63	113.95
New Zealand (18)	64.38	-10.7	55.85	57.85	-10.2	5.96	64.80	56.03	58.29	88.18	62.64	72.38
Norway (24)	233.90	+17.0	202.91	205.32	+14.8	1.52	236.93	204.89	207.43	241.98	139.92	167.75
Singapore (26)	192.36	+8.5	166.88	165.32	+6.5	1.76	194.74	168.40	167.19	199.38	124.57	143.43
South Africa (60)	205.03	+4.3	177.87	159.77	+5.1	3.49	209.79	181.41	162.33	251.39	115.35	130.78
Spain (43)	150.65	-7.6	130.69	123.31	-8.8	4.26	152.05	131.48	124.23	169.75	143.14	145.12
Sweden (35)	182.37	-5.0	158.21	164.08	-6.8	2.23	183.50	158.68	165.30	206.95	138.45	154.72
Switzerland (62)	94.99	+1.0	82.41	86.98	-3.8	2.08	96.73	83.64	88.27	99.12	67.81	76.67
United Kingdom (306)	155.48	-2.0	134.88	134.88	-7.6	4.75	158.27	136.86	136.86	164.31	133.28	148.18
USA (542)	131.32	-8.2	113.92	131.32	-8.2	3.61	131.94	114.09	131.94	146.29	112.13	117.07
Europe (989)	138.62	-2.6	120.26	120.87	-5.8	3.66	140.99	121.92	122.47	146.66	112.63	118.36
Nordic (121)	189.55	+1.2	164.44	161.53	-0.8	1.85	190.96	165.13	162.59	201.89	137.95	152.50
Pacific Basin (667)	165.40	-14.1	143.48	153.51	-12.3	0.79	170.70	147.61	157.37	194.72	160.44	194.61
Euro-Pacific (1656)	154.93	-10.3	134.40	140.61	-10.1	1.80	159.05	137.54	143.54	174.18	141.66	164.07
North America (662)	131.62	-8.3	114.18	130.58	-8.1	3.59	132.26	114.37	131.20	146.68	112.79	117.82
Europe Ex. UK (683)	127.10	-3.0	110.26	112.16	-4.6	2.79	129.20	111.73	113.54	135.73	96.30	99.94
Pacific Ex. Japan (212)	130.95	-3.0	113.60	118.27	-1.4	4.85	132.71	114.76	119.94	140.05	111.93	129.78
World Ex. US (1849)	154.96	-10.1	134.43	140.39	-9.8	1.87	158.97	137.46	143.23	173.77	141.49	162.60
World Ex. UK (2085)	144.56	-10.2	125.41	137.80	-9.5	2.17	147.36	127.43	139.63	162.00	136.98	144.87
World Ex. So. Af. (2331)	145.15	-9.6	125.92	137.06	-9.4	2.41	147.94	127.93	139.17	161.84	136.67	145.24
World Ex. Japan (1936)	135.25	-5.7	117.33	127.53	-6.8	3.63	136.63	118.15	128.63	145.52	114.51	118.69
The World Index (2391)	145.51	-9.5	126.24	137.22	-9.3	2.42	148.31	128.25	139.33	162.05	136.68	145.15

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).
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CONSTITUENT CHANGE 20/2/90: Name change: Ocean Transport & Trading to Ocean Group (UK).
Trading on the Helsinki exchange has been reduced following a banking employees dispute.

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

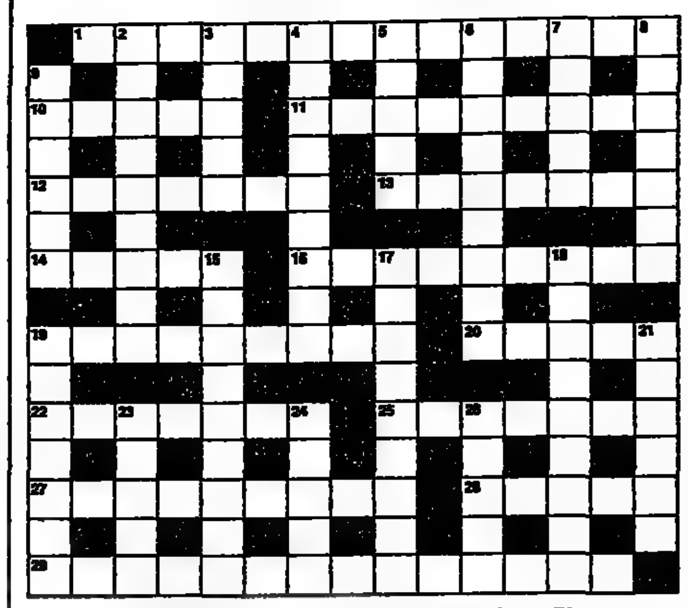
RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

CROSSWORD

No.7,174 Set by COURTIER



ACROSS

1 Dramatic way of serving teas with bare plates (8,6)
10 Magistrate backs a change of direction, up to a point (5)
11 Expansively, on the M1 perhaps (2,1,3,3)
12 Indians in conflict on this (7)
13 Explosive contains a peculiar outburst (7)
14 Encourage but face an addition that would cause embarrassment (3,2)
16 Average guy, living in Wimbledon? (6,3)
19 On which to record The Times for example (9)
20 French city girl (5)
22 Tyre, by the sound of it starting to deteriorate (5,2)
25 Separated, I point to quiet skills (2,5)
27 A laboratory plant producing a smooth white material (9)
28 Female artist clasps a brick carrier (5)
29 Act unconscientiously – by putting on ice? (3,6,5)

DOWN

2 Notices correct command for line-up (4,5)
3 Scene of conflict an age back (5)
4 "- —— decked his brows instead of bay" (Goldsmith) (1,8)
5 Create a law linking token actions (5)
6 Tearful site, a property right to half Cornwall (5,4)
7 Threaten to descend (5)
8 Pray tell us how to conclude (3,4)
9 Scan peak to the south-east (6)
15 A spy ran HP treatment for skin irritation (5,4)
17 This festival could be a mad rag, Sir! (5,4)
18 Lesser thoroughfare may be nothing in Rolls-Royce domain (5,4)
19 We'll ban wobbly projectile favouring fast men (3,4)
21 He'll agree to remove a letter from 8 and rewrite it (3,3)
23 A lawyer in America takes exercise for change (5)
24 Accommodate it in the French end (3,2)
26 Danger for every one at fifty (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday March 10.

JOTTER PAD

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

BRITISH FUNDS—Contd

Index-Linked

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Contd

CANADIANS

Continued on next page

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

BANKS, HP & LEASING

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
2,366.7	ANZ SA1	249	44c	8.0	8.1	Feb July	1698
2,305.6	Abbey National 10p	176	L7.7	5.8	–	Apr Oct	5411
1,348.5	Allied Irish Ord	244	Q68%	3.3	27.11	Dec July	1354
1,194.3	Algemene Fl.10	£11½	Q28%	7.9	2.5	Aug May	1567
31.1	Anglo Irish	76	Q18.7%	5.7	27.11	Jan Aug	1355
138.1	Ansbacher (H.) 1p	74	2.0	3.6	13.3	April	1624
869.9	Bancaire Cie Fr100	£92¼	Q12¼%	2.5	9.5	May Mar	2202
4,609.4	Banco Bilbao Viz	£38	Q35.7%	3.6	9.12	Dec June	–
2,880.6	Banco de Santander	£25½	Q25%	4.1	31.10	Apr Oct	–
858.2	Bank Ireland Ir£1	257	Q12%	4.5	27.11	July Dec	1368
134.4	Bank Leumi	£19½	–	–	–	–	1740
23.6	Bank Leumi (U.K.)	345	†13.5	5.4	31.7	Apr Sep	1740
899.7	Bank Scotland	114	†3.8	4.4	2.10	Nov June	1742
96.8	Do. 9¼pc Irrd Pf	96¾	9¼%	12.7	30.10	May Nov	1462
16.6	Bank of Wales	52	2.8	7.2	2.10	Nov Jun	1743
6,176.5	Barclays £1	550	†23.0	5.6	14.8	Oct Apr	1754
10.2	Beachmark 20p	19	1.63	11.4	18.9	May Oct	1802
49.4	Brown Shipley £1	316	†10.5	4.5	27.11	Jan Aug	1983
77.8	Cater Allen £1	410	23.5	7.6	27.11	Jan. July	2081
34.0	Chancery	167	†8.0	6.4	27.11	Jan July	2102
454.4	Commerzbk DM10	£20¼	Q18%	3.3	27.5	May	1046
326.9	C'hgn. Hbk Kr100	£24¼	Q15%	5.9	22.3	March	2237
27,993.4	Dai Ichi KBk Y50	£10½	†Q16%	0.3	4.7	June	3221
8,206.7	Deutsche Bk DM50	£270½	Q24%	1.6	11.5	May	2345
135.3	Espirito Santo	£19½	Q75c	2.4	–	June	5187
395.9	First Nat. Fin. 10p	213	13.0	8.1	15.1	Mar Aug	2571
53.3	FNFC 6.3pc Cv. Pf	120	6.3%	7.6	27.12	July	2570
34,198.6	Fuji Bank Y50	£13¼	Q15.6%	0.2	4.7	Dec June	1084
105.2	Gerrard & National	276	18.5	8.9	30.10	June Dec.	2686

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LEISURE

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

MOTORS, AIRCRAFT TRADES

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
277.5	DAF B.V. Fl1.5	69½	H02 5	7.2	–	–	4773
–	General Mtrs Units	125	[illegible]	6.0	12.2	Mr Jn Sp D	3678
1,503.0	Jaguar	849	♦11.0	1.7	18.9	May Nov	3019
9.17	March Group 5p	4	[illegible]	–	15.8	Sept Apr	3284
4 102.0	Volkswagen DM50	£291¾	Q20%	1.8	–	July	–
1,8[illegible]	Volvo Kr25	£34	Q56%	3.7	27.4	May	4410

Commercial Vehicles

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
22.4	ERF (Hldgs)	298	15.0	8.7	27.12	Jan Aug	2397
42.8	Plaxton Grp	144	H8.5	6.8	27.6	Dec Jun	3675

Components

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
8.76	Abbey Panels	43	3.5	1.1	15.1	Sept Feb	1501
19.2	Airflow Streamlines	225	6.0	3.6	30.10	Jan July	1538
21.8	Bostrom 5p	190	L5.1	3.6	2.10	May Nov	1438
469.8	Dowty 50p	194	18.0	5.5	27.12	Mar Oct	2371
126.5	FR Group	171	t5.54	4.3	30.10	Dec. July	2627
139.9	Kwik-Fit Hldgs. 10p	87	2.4	3.7	2.10	Nov May	5115
976.4	Lucas Inds. £1	572	25.0	5.8	30.10	Jan Jan	3232
3.98	Spice 5p	15	[illegible]	–	4.7	August	4075

Garages and Distributors

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
10.2	Alexanders 10p	24	1.0	5.1	15.1	March	1562
59.4	Appleyard 10p	127	t6.6	7.1	4.9	Oct Apr	1629

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
11.5	Do 7¾pc Pf	90	7.25	10.7	12.2	–	4328
61.4	Egerton Trust	149	10.0	9.4	17.7	Apr. Aug.	2429
11.8	[illegible] Prop. Gro. 10p	155	t2.2	2.0	11.12	Aug Jan	1806
5.24	Eng & O'seas Props 10p	90	4.5	6.9	4.9	October	5119
38.5	Erostin Group	175	t6.0	4.6	27.11	Feb Sept	5133
21.0	Ests. & Agency	359	t5.0	1.9	13.11	Nov July	2496
34.5	Ests. & Gen. 20p	163	t3.4	2.8	2.10	Apr Nov	2497
19.6	Do. 6pc Cv. Pf.	95	6.0	8.6	18.9	–	5330
67.2	Evans of Leeds	205	t6.15	4.0	11.12	Jan. Aug.	2507
19.8	Ewart	73	[illegible]	3.4	18.9	Oct. Mar	2512
26.9	Five Oaks Invs 5p	37	1.6	3.7	27.11	Jan Jan	2585
12.5	Fletcher King 10p	150	10.6	9.4	29.1	Mar Oct	2605
30.1	F.S.M. Props. 10p	124	t5.0	5.8	12.2	Jan Oct Apr	4821
165.1	Frogmore Est 50p	416	11.0	3.5	2.10	Apr Nov	2638
57.3	Grainger Trust	288	5.25	2.4	29.1	Feb July	2750
525.9	Gt. Portland 50p	269	[illegible]	4.5	27.11	Jan. Jly.	2737
46.6	Do 9½pc Cv Ln 2002	£217	Q9½%	8.0	16.10	June Dec	4865
20.6	Green Property Ir25p	138	[illegible]	3.8	31.7	Mar Sept	1436
354.2	Greycoat 10p	487	14.5	1.5	11.12	Jan Oct	2777
152.9	Hampton Countryside 5p	49	t2.6	[illegible]	17.4	Jul Oct	2808
938.1	Hammerson "A"	723	t17.0	3.1	30.10	Dec June	2814
6.18	Hanover Druce 10p	103	5.0	6.5	16.10	July Dec	2820
48.7	Hardanger Prop 10p	655	28.13	5.7	27.12	July Jan	2830
45.4	Helical Bar 5p	248	t5.8	3.2	2.10	Jly Nov	2867
13.3	Do. 5¾pc Cv Pf '12	76	5¾%	10.0	15.1	Jan July	2868
18.2	[illegible] & Dew 10p	165	t4.0	3.2	18.9	May Nov	3048
1.41	[illegible] Land Hldgs.	56	[illegible]	5.2	12.10	Jun Nov	2794
27.9	HMOCO 10p	13½	Q0.23	2.3	13.2	April	2981
119.3	Int. Inc Ppty S0.01	99	Q51.00	6.6	12.5	Mr Je Sp Dc	2909
5.00	Jermyn Invest	258	2.5	1.3	22.5	Jun Feb	3034
2.01	Key City Prop.	30	–	–	–	–	–
399.5	Laing Properties	664	[illegible]	2.1	16.10	May Nov	3119
64.9	Do 8¼pc Ln 2000-05	£315	Q8¾%	2.8	13.11	June Dec	3120
2,404.1	Land Securities £1	477	t14.4	4.0	27.11	Dec. July	3133

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

WATER

For Water Package Units see Recent Issues

OIL AND GAS

OIL AND GAS—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]Z Oil & Gas NZ$0.50	25	–	–	–	–	–
[illegible]	[illegible]rsk Hydro Kr20	£17[illegible]	Q20%	2.1	29.4	June	3514
[illegible]	[illegible]th Sea Assets 5p	26	–	–	11.85	–	3528
[illegible]	[illegible]cidental Pet. 20c.	£16¼	Q52.50	8.8	6.9	Ja Ap Jy Oc	–
[illegible]	[illegible]alo Res.	2[illegible]	–	–	–	–	–
[illegible]	[illegible]liver Res.	2[illegible]	–	–	–	–	1469
[illegible]	[illegible]n Pacific Pet.	2	–	–	–	–	4850
[illegible]	[illegible]etrofina SA	£174¼	BFr416	5.6	22.5	May	–
[illegible]	[illegible]etrogen Petroleum	7½	–	–	–	–	3647

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

MINES—Contd

Miscellaneous

THIRD MARKET

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	–	–	–	–	[illegible]
5.80	Sleepy Kids 5p	29	–	–	–	–	5068
3.92	Swangard Studios 1p	2½	–	–	–	–	4666
7.93	Tavern Leis. 20p	51	♦	–	–	–	4867
8.85	Tomorrows Leisure 20p	79	–	–	–	–	4248
2.22	UPL Group 10p	55	t2.75	[illegible]	22.5	Dec. July	4362
7.59	Unit Group	143	5.0	4.7	11.12	Jan Aug	4357
7.57	Video Magic Leis. 1p	86	W2.0	3.1	26.1	Jan July	5071
4.32	Vista Ests 5p	4½	–	–	–	–	3996
9.63	Vizcaya Hldgs 5p	18	–	–	–	–	4193
59.2	Whitegate Leisure 20p	38	0.25	0.9	12.2	April	1105
1.61	Do. Wrrnts.	24	–	–	–	–	1116
20.1	Wilton Group 1p	4½	–	–	–	–	5628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application.
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ¥ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date.
- § No par value

B.Fr. Belgian Francs. Fr. French Francs. §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or –
Albany Inv 20p	93	+2
Craig & Rose £1	830	.....
Finlay Pkg. 5p	58	+2
Holt (Jos) 25p	1355	.....

IRISH

Stock	Price	+ or –
Cap. 8¾% Ln. 1991	£96¼	.....
9pc Cap Ln. 1996	£90¾	–¼
Fin. 13% 97/02	£108	.....
Arnotts	440	+25
Carroll (P.J.)	155	.....
Hall (R. & H.)	185	.....
Heiton Hldgs.	90	–1
IRG	210	.....
United Drug	168	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials

Stock	p
Allied-Lyons	41
Amstrad	6½
Astec (BSR)	5½
BAT	67
BOC Grp.	44
BTR	37
Barclays	40
Blue Circle	28
Boots	23
Bowaters	39
Brit Aerospace	46
British Steel	9
Brit. Telecom	22
Cadburys	31
Charter Cons.	42
Comm Union	40
Courtaulds	31
Eurotunnel	65
FKI	8
FNFC	22
Gen Accident	92
GEC	19
Glaxo	60
Grand Met	44
Guardian	19
GKN	33
Hanson	18
Hawker Sidd.	55
ICI	90
Jaguar	85
Ladbroke	25
Legal & Gen.	31
Lex Service	26
Lloyds Bank	21
Lucas Inds.	54
Marks & Spencer	16
Midland Bk.	26
Morgan Grenfell	38
Nat West Bk.	23
P & O Dfd.	51
Polly Peck	38
Racal Elect.	20
RHM	39
Rank Org Ord.	72
Reed Intnl.	34
STC	25
Sears	9
SmKl. Beecham A	46
TI	38
TSB	9
Tesco	16
Thorn EMI	63
Trust Houses	25
T&N	16½
Unilever	57
Vickers	22
Wellcome	55

Property

Stock	p
Brit Land	27
Control Secs.	5
Land Securities	45
MEPC	45
Mountleigh	13

Oils

Stock	p
Brit Petroleum	28
Burmah Oil	65
Charterhall	2½
Conroy Petlm.	5
Premier	10½
Shell	37
Tuskar Res.	12
Ultramar	28½

Mines

Stock	p
Lonrho	23
RTZ	45

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

4pm prices February 23

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										

Continued on Page 33

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
41¼	29½	RiteAid	.90	2.8	13	814	32¼	31⅞	32¼	+ ⅛
13-32	⅛	RvrOak				5	5-32	5-32	5-32	
19⅞	16¼	RobtH			18	68	17⅛	17	17¼	+ ¼
12⅞	9½	Robtsn			15	48	10⅛	9⅞	10	– ⅛
22⅛	17	RochG	1.56	7.6	10	227	20⅜	20⅝	20⅝	+ ⅛
45¾	27½	RochTl	e1.48	4.9	15	1296	31	29½	30	– 1
22⅛	18½	RckCtr	1.88	9.8	17	437	19⅝	19¼	19¼	– ⅜
27⅛	19¾	Rockwl	.78	3.7	7	1820	21¼	20⅝	20⅞	– ⅛
37½	29¾	RohHaa	1.20	4.1	11	214	29⅝	29½	29½	– ¼
37⅝	18½	Rohr			26	348	20⅛	19½	20	+ ⅜
14⅛	8⅝	RollnE	.08	.6		2027	13¼	12⅝	12½	– ⅝
21	16¾	Rollins	.56	3.4	16	160	16⅞	d16⅜	16⅝	– ½
10¼	7⅛	RolTrk	.20b	2.7	8	138	7½	7⅜	7½	– ⅛
64⅞	36¼	Rorer	.84	1.4	22	5386	68¼	66½	58½	+ ⅜
14	8	Rowan				14901	12⅜	11¾	12¼	– ⅝
25⅛	23¼	RBScI	pr.71e	2.9		179	24⅛	24⅜	24⅜	
78⅝	58	RoylD	3.36e	4.5	6	3092	75¼	74⅜	74⅝	– ⅝
16	8½	Roylnt	.20a	2.2	12	53	9⅛	9⅛	9½	
10	6¼	Royce	.62e	8.9		115	6¾	6⅝	6¾	
37¼	25¼	Rubmd	.62	1.9	29	416	32⅜	31⅞	32	– ⅛
20⅝	14¼	RussBr	.48	2.8	17	282	14½	14⅜	14½	
15	9	RussTg	.20	2.2	180	1	9	9	9	
20½	18¾	Russell	.32	1.4	15	524	23⅝	23⅛	23¼	– ¼
31½	17⅝	Ryder	.60	3.3	31	2853	18⅛	17⅝	18	+ ⅜
20½	16	Rykoff	.60	3.7	10	680	16⅜	d16⅝	16½	+ ¼
25⅛	18¼	Ryland	.60	3.2	6	322	19⅛	18⅛	18⅝	– ½
14⅝	9	Rymer			12	9	d 8⅝		8⅝	– ⅜
10⅝	9¼	Rymr	pf1.17	13.		10	9¼	9¼	9¼	– ¼
		– S–S–S –								
41	31	SCEcp	2.68	6.9	10	1242	37½	36¾	37¼	+ ⅜
14½	8¼	SCOR U	.20	1.7	15	60	11⅞	11⅞	11⅞	
9½	7⅜	SL Ind	.17b	2.1	13	90	8¼	8	8	

NASDAQ NATIONAL MARKET

4pm prices February 23

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
WiscTy		16	27	10⅜	10	10¼	– ⅛
WiserO	.40	27	150	20⅝	20⅛	20¼	– ⅝
Wolohn	.28b	9	x39	15¼	15	15	
WrivEx h			1085	14⅛	13⅝	14	
Worthg	.68	16	302	20⅝	20⅜	20½	– ⅛
Wyman	.80		230	14⅛	13¾	13½	– ½
		–X–Y–Z–					
XL Dta s		4	282	7¼	6⅞	7¼	
XOMA			1036	19½	18¾	19¼	– ½
Xicor		144	3049	3	2⅝	2⅞	+ ⅛
Xyvan			36	2¼	2⅛	2⅛	– ⅛
YamEnS	.76a	13	153	21½	21	21	– ½
YelowF	.76	36	253	23¾	23¼	23⅝	
YorkRs		17	87	10	9½	10	
ZionUt	1.44	12	24	27¼	26⅞	27¼	+ ⅜

AMEX COMPOSITE PRICES

4pm prices February 23

The Business Column

Thinking twice about dirigisme

Things are not going well for the American industrial policy lobby. Though it gained influential converts in the late 1980s, it has failed to persuade the Bush Administration that the competitive ills of US industries such as semiconductors and computing can be cured by a dose of dirigisme laced with lavish government subsidies.

Now, one of the movement's leading lights, Mr Robert Reich of Harvard University, has issued what amounts to a public recantation. In an article in the Harvard Business Review*, he tacitly admits that the remedies to declining US competitiveness which he and others once favoured were based on a fundamentally wrong diagnosis.

Illusory

The crucial mistake, he says, was to assume that the economic interests of the nation and those of US-owned manufacturers were identical. But the link is illusory. By expanding their investments abroad far faster than at home, American firms have succeeded better than the country as whole in maintaining their share of world trade.

The companies which are really doing their bit for US employment and prosperity are, he insists, are increasingly foreign-owned. Their US operations contribute substantially – and often more than their home-grown competitors – to local skill levels, management quality, technology and industrial value-added. They also pay their staff better. In sum, growth of foreign direct investment is not a Trojan horse but a gift horse.

Reich does not attempt to explain why foreigners should be pouring into the US just as its own companies are rushing in the opposite direction. Presumably, "globalisation" and – in the case of Japanese firms – US protectionism play a part. But the blinding revelation that America's best friends are not who he had once supposed leads him to some useful conclusions.

Myopia

Washington, he argues, is simply wasting its time bludgeoning Tokyo into opening its domestic market to imports of products like mobile telephones when the only handsets exported to Japan from the US are produced by Japanese-owned companies.

It is no less myopic to limit membership of collaborative projects, such as the Sematech microchip programme or the proposed high-definition television consortium, to American-owned companies.

Such ventures, he says, should be opened to any electronics manufacturer with US research and manufacturing operations – Japanese included.

As Reich points out, a country's most important competitive assets are the skills of its workforce and its technology base. In a world of mobile capital, discriminating between companies simply on the dubious criterion of beneficial ownership leads to inefficient use of scarce resources and, ultimately, to self-impoverishment.

Reich's article is a refreshing antidote to US paranoia about supposed foreign threats to its economic sovereignty. It also offers lessons to Europe, where "strategic industry" arguments have persuaded Brussels to fund a costly programme to help European companies produce advanced microchips. The manufacturers insist Europe must have the capacity to make such components if it is to remain at the forefront of technology.

Yet Brussels has also introduced rules which require semiconductors sold in the European Community to be made there, compelling most leading US and Japanese producers rapidly to expand their local production facilities. Once that capacity comes on stream, it may be a moot question where the EC's industrial interests lie.

With indigenous chipmakers, who are struggling to stay in the business? Or with US and Japanese producers, who already dominate the EC's market and appear set to control most of its onshore production?

Guy de Jonquières

* "Who is Us?", HBR No 1, 1990.

MONDAY INTERVIEW

Cautious man of the Party

John MacGregor, UK Secretary of Education, speaks to Michael Prowse

John MacGregor, the short bluff Scotsman in charge of British education, is nothing like as good a salesman as Kenneth Baker, his predecessor. Fine phrases do not trip off his tongue. He could never make a living selling encyclopedias. But he more than makes up for presentational weaknesses by conveying a genuine interest in his subject.

"It's fairly clear from my background," he says, "that I have a typically Scottish view about the importance of education." At public school in Edinburgh, Mr MacGregor was "very much the scholarship-boy type." He swotted away in the sixth form passing five rather than the normal three A levels and then spent seven years at university: four at St Andrews, where he specialised in economics, and three at King's College London, where he read law. As if this were not enough, he then took a job as a university administrator.

So it is reasonable to guess that Mr MacGregor actually likes schools, universities and the process of education. This commitment to education is encouraging, but not, of course, a guarantee that he will succeed in raising Britain's often lamentably low standards.

One possible reason for low standards is that a large proportion of rich and influential people has always sent its children to expensive independent schools – and thus never cared a fig about the quality of state comprehensives. The independent sector educates only about 6½ per cent of the population but wins more than 50 per cent of the places for home students at Oxford and Cambridge. Did Mr MacGregor consider this evidence of great inequality of opportunity?

"I'm a great believer in choice and variety," was the predictable reply. Mr MacGregor said many parents who choose the independent sector are "first-time" buyers, having themselves been educated in state schools. This indicated a level of dissatisfaction with state education which the Government was striving to improve via reforms such as the new national curriculum.

Somewhat lamely he added that some state schools were getting extremely good results, including Oxford scholarships. "I have some in my constituency," he confided. But he did not directly address the point that parental income now heavily influences an individual's chance of attending the best universities.

The Government's reforms will only work, I suggested, if schools can attract teachers of the right quality and provide a suitable environment for learning. Yet recent reports from the teachers' advisory committee on pay, Her Majesty's Inspectorate (HMI) and others painted a frightening picture of a service under strain.

I gave a few examples. After 10 years of Tory management, a third of teachers say they would leave the profession if they could; only 15 per cent retire at the normal age; recruitment is 35 per cent below target in physics; the HMI says a quarter of schools (some 1,000) are not performing satisfactorily; in 20 per cent average attendance is below 90 per cent.

"You've got to look at comparative levels," interjected Mr MacGregor, anxious to stem the flow of awful statistics. "There has been considerable progress in the 1980s. I could quote a lot of statistics back at you. The HMI report also says that 70 to 80 per cent of all teaching in schools is satisfactory, good or very good."

PERSONAL FILE

1937 Born, Scotland. Educated St Andrews University
1965-68 Head of Edward Heath's private office
1973-79 Director, Hill Samuel
1974- Conservative MP, South Norfolk
1985-87 Chief Secretary to the Treasury
1987-89 Agriculture Secretary
1989- Education Secretary

Mr MacGregor concedes that there are serious shortages of teachers in some subjects. But most of these are in areas where skills are in high demand throughout the economy – such as languages. He complains that the shortages experienced by other industries are just as pressing, but do not get the same publicity.

On morale, he says it is not surprising that some older teachers "frankly run out of steam" and cannot face the changes being introduced, such as local management of schools and the new curriculum.

"The key thing to ensure is that we have a supply of good eager replacements." He adds that perceived status is also terribly important. Head teachers have to believe their work is valued by society.

But surely, I argued, if you want to revive the sector, you must ensure that resources flow into education in a big way, as they have into, say, financial services. Since the Government lacks the will to raise education spending significantly, it logically should ask parents to contribute towards the cost of state education. They spend huge amounts on consumer durables and foreign holidays and would probably want to spend more on education than his budget allowed.

Mr MacGregor struggled not to smile. "Are you talking about vouchers or something like that?" he asked.

It does not matter how it is done, I said, I'm simply asking whether it makes sense to fund this crucially important commodity through taxation if constraints are placed on the rate at which tax revenue can grow.

Caution became Mr MacGregor's watchword. "Vouchers have been looked at on several occasions and they are certainly not in my sights." However, the fact that he got Cabinet approval within 24 hours to implement the advisory committee's pay recommendations in full indicated the priority he attached to getting more resources for education.

"I do also think that there is absolutely nothing wrong, and indeed every virtue, in encouraging parents to contribute – admittedly mainly at the margin – but to contribute a great deal more to things such as equipment and books . . . I see nothing wrong in that but it's always going to be a small proportion."

'I'm a great believer in choice and variety'

But why should it be a small proportion? "Because otherwise you're moving into a voucher system."

Under a voucher system, state spending on eduction would be redistributed directly to parents. They could spend the vouchers how they pleased and top them up with their own money. Artificial restraints on the total level of educational spending would disappear.

Mr MacGregor was not able to explain cogently why he objected to vouchers. He simply declared they were not "the political priority at the present time."

But he denied that the introduction of vouchers would be "inconceivable" at some point during the 1990s. In the meantime, schools had more than enough reforms to cope with.

Turning to what children are taught, I asked whether Mr MacGregor agreed that the new national curriculum was old-fashioned. The curriculum makes traditional subjects such as geography, history and art compulsory, but does not require students to study economics.

"Hang on a minute, let's keep a sense of perspective on this," was his slightly flustered reply. "As far as market awareness and the role of economics is concerned, no one is more passionate than I." But drawing up a new curriculum was a "horrendously difficult task": finding room for the traditional subjects meant fitting a "quart in a pint pot" and incurring the wrath of groups such as classicists. Mr MacGregor suggested a vague place for economics might be found as a "cross-curricular theme" or as an extra-curricular item.

This seemed an unsatisfactory reply. I said it was not obviously more important to teach children about the structure of the atom than about the nature of the price mechanism. But Mr MacGregor was unwilling to concede fundamental flaws in the structure of his compulsory curriculum.

Switching to post-16 education, I asked whether he was concerned that after 10 years of Tory management the HMI had found that 36 per cent of schools offered sociology A level but only a mere 15 per cent offered vocational courses sponsored by the British Technician and Education Council (BTec)?

He agreed the needs of the post-16 age group had to be addressed. This was the "next stage of development" of the Government's reforms. He accepted that A level courses were not right for all 16 – 18 year olds and that there needed to be a stronger emphasis on vocational education if staying on rates (which are among the lowest in Europe) were to rise.

But characteristically he refused to accept the case for root-and-branch reform. I pointed out that the A level system virtually precluded the possibility of a balanced curriculum because you could not cover much ground if only three subjects were offered for examination.

Mr MacGregor's response was that pupils would at least enjoy a broader education up to the age of 16 and that he had asked his advisory bodies to look at ways of combining A levels with vocational courses and "core skills" such as numeracy and information technology. He also expressed confidence in "AS levels", which are a new type of shortened A level.

The impression I took away was that Mr MacGregor would sooner die than contemplate radical reform. He will implement present policy diligently, but the kind of changes needed if the relative decline of state education is to be halted must await a much bolder politician. Meanwhile wealthy parents will continue to vote with their children's feet.

Dervishes turn towards a renaissance of Islam

Each Mevlevi in the file moving with stately mien beneath a tall, fawn fez bowed to kiss the grand master's ring. Then to the calm, majestic cadence of the sema – a rythmic fugue by drum, reed flute, zither and other stringed instruments – they unfolded their arms up and out, whirling away with billowing white skirts into a mystic communion with their God.

LETTER FROM KONYA

The whirling Dervishes of the Mevlana sect were performing in December before President – formerly Prime Minister – Turgut Ozal in the Ataturk sports hall in Konya, the Islamic centre of Turkey.

The Mevlevi were established in Konya in the 13th century by the great poet and philosopher Mevlana Celaleddin-i Rumi. Along with other Islamic brotherhoods, the sect was proscribed in the fervour of the secularism with which Mustafa Kemal Ataturk, the nationalist leader, founded the republic in the 1920s.

They were permitted to start whirling again in 1953, ostensibly only for the preservation of Turkey's artistic and cultural heritage. But the ceremony seen by Mr Ozal was imbued with far more spirit.

An impassioned speech calling on all to venerate Mevlana and his beliefs by Mr Namik Kemal Zeybek, the right-wing Minister of Culture, set the mood as Mr Ozal was ushered to his seat by Mr Mehmet Kececiler, the MP for Konya. Mr Kececiler is the leader of the dominant "holy alliance" of Islamic conservatives and right-wing nationalists in the ruling Motherland Party (ANAP).

Officially, Turkey remains the secular state conceived by Ataturk. The military, which at the highest level considers itself the guardian of this tradition, periodically conducts "witch-hunts" for religious fundamentalists which it thinks may threaten the modern order. The most recent purge turned inward on the army: suspicion was thrown on 300 officers and NCOs.

The Mevlevis themselves in no way present the sort of threat to the secular state now typified for Near East governments by the theocracy in Tehran. Theirs is a quietistic philosophy incorporating a belief in love, tolerance and God's omnipresence. In any case, the cult of sainthood at the centre of the sect is anathema to the purist austerity of Islamic fundamentalism. Fringe groups apart, Islam in modern-day Turkey is largely pious worship, not violent proselytising.

Yet there is no doubt about the resurgence of Islam in Turkey. It is most visible in the number of mosques under construction and newly built, and in the proliferation of neighbourhood Koranic schools. Some interpret the resurgence as a retreat from crushing inflation and consequent economic and social distress.

Mr Ozal's visit to Konya so early in his seven-year term after his election in November is yet one more indication that the state will now look far more benignly on manifestations of Islam than it did under former president General Kenan Evren. Last month, there were demonstrations in Istanbul and Ankara demanding that the great mosque of Aya Sofia, once the cathedral of Constantinople, be returned to public prayer from its present status as a museum.

President Ozal is a devout believer. In the first three weeks of his term he attended Friday prayers ostentatiously at large Ankara mosques until persuaded that it was not presidential form.

He last made the Haj pilgrimage to Mecca in 1988 after escaping an assassination attempt against him in June of that year.

Another indication of Islam's new-found acceptability was the lifting in December of a ban on the wearing of Islamic headgear – most commonly young girls' headscarves – at institutions of higher education. In 1988 the "holy alliance" had pushed through Parliament a bill repealing the ban but this repeal was later cancelled by the Constitutional Court.

The end-of-December decree instead quietly removed the relevant article from the higher education law – but left the final decision on the matter up to individual universities, most of which reinstituted a classroom ban on their own authority.

The intervention of the constitutional court had prompted a thundering denunciation from Ayatollah Khomeini. This, coupled with street demonstrations outside mosques following Friday prayers, compromised Mr Ozal, when set against his indulgence towards a "few girl students." Reaction against the spectre of fundamentalism was a minor factor in the overwhelming rejection of ANAP in local elections at the end of March 1989.

Yet now the new realism in Tehran under President Rafsanjani could usher in a period of improved Iranian-Turkish relations. An invitation to visit Turkey has been extended to President Rafsanjani, while Turkish Prime Minister Mr Yildirim Akbulut will travel to Tehran tomorrow at the head of a delegation of Turkish businessmen looking for contracts, following the example set in the 1980s by Mr Ozal when he was premier. Significantly, Mr Kececiler will be the acting premier while Mr Akbulut is away.

Religious considerations did not affect the broadly negative avis by the EC Commission recently on Turkey's full membership application, at least according to Mr Abel Matutes, the EC Commissioner for the Mediterranean.

However, senior officials and ministers have obliquely threatened that Turkey might seek an independent regional role if given no hope soon of EC entry, with all that might entail for its EC association agreement, and NATO membership.

But how far Turkey would be prepared to jettison Europe and the US for its southerly neighbours, Syria, Iraq and Iran, or move closer to the Soviet Union is another question. Despite the Islamic resurgence, Turkey's future still lies on the course Ataturk steered – towards the West rather than East.

Jim Bodgener